Deputy General Manager
Investment Management Department

SEBI / IMD / MC No.1 /189241/ 2010
January 1, 2010

All Mutual Funds, Asset Management Companies (AMCs)
and Association of Mutual Funds in India (AMFI)

Sir / Madam,

Sub: Master Circular for Mutual Funds

For effective regulation of the Mutual Fund Industry, Securities & Exchange Board of India (SEBI) has been issuing various circulars from time to time. In order to enable the industry and other users to have an access to all the applicable circulars at one place, Master Circular for Mutual Funds has been prepared.

This Master Circular is a compilation of all the circulars issued by SEBI on the above subject, which are operational as on date of this circular.

Yours faithfully,

Asha Shetty

MASTER CIRCULAR FOR MUTUAL FUNDS

BY

SECURITIES & EXCHANGE BOARD OF INDIA

1. This Master Circular includes circulars issued upto December 31, 2009.

2. In case of any inconsistency between the master circular and the applicable circulars, the contents of the relevant circular shall prevail.

3. Master Circular is a compilation of all the existing/applicable circulars issued by Investment Management Department of SEBI issued to Mutual Funds. Efforts have been made to incorporate certain applicable provisions of existing circulars (as on December 31, 2009) issued by other Department/Division of SEBI relevant to Mutual Funds.

INDEX

ABBREVIATIONS

American Depository Receipt	ADR
Association of Mutual Funds in India	AMFI
Asset Management Company	AMC(s)
Bombay Stock Exchange	BSE
Compliance Test Reports	CTR(s)
Contingent Deferred Sales Charge	CDSC
Fixed Maturity Plans	FMP(s)
Foreign Institutional Investor	FII
Global Depository Receipt	GDR
Gold Exchange Traded Fund	GETF
Hindu Undivided Family	HUF
Investor Service Center	ISC
Key Information Memorandum	KIM
Monthly Cumulative Report	MCR
National Stock Exchange	NSE
Net Asset Value	NAV
New Fund Offer	NFO
Non Performing Assets	NPA(s)
Permanent Account Number	PAN
Regulation	Reg.
SEBI (Mutual Funds) Regulations 1996	Regulations
Securities and Exchange Board of India	the Board
Scheme Information Document	SID } Offer Document
Statement of Additional Information	SAI } Offer Document
Systematic Investment Plan	SIP
Systematic Transfer Plan	STP
Systematic Withdrawal Plan	SWP
Trustee(s)	Board of Trustee(s)/Trustee Company
Uniform Client Code	UCC

CHAPTER 1

OFFER DOCUMENT FOR SCHEMES

1.1Filing of Offer Document with the Board [1]

1.1.1 The Offer Document shall have two parts i.e. Scheme Information Document (SID) and Statement of Additional Information (SAI). SID shall incorporate all information pertaining to a particular scheme. SAI shall incorporate all statutory information on Mutual Fund.

1.1.2 The Mutual Funds shall prepare SID and SAI in the prescribed formats[2]. Contents of SID and SAI shall follow the same sequence as prescribed in the format. The Board of the AMC and the Trustee(s) shall exercise necessary due diligence, ensuring that the SID/SAI and the fees paid[3] are in conformity with the Mutual Funds Regulations.[4]

1.1.3 All offer documents (ODs) of Mutual Fund schemes shall be filed with SEBI in terms of the Regulations[5].

1.1.3.1 Filing of Draft SID:

a. Draft SID of schemes of Mutual Funds filed with the Board shall also be available on SEBI's website – www.sebi.gov.in for 21 working days from the date of filing.

b. AMC shall submit a soft copy of draft SID to the Board in HTML or PDF format. For this purpose, AMC shall be fully

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[1] SEBI Circular No. SEBI/IMD/CIR No.5/ 126096/08 dated May 23,2008 and SEBI Circular No – SEBI/IMD/CIR No.10/178129/09 dated September 29,2009

[2] For format of SID & SAI, please refer the chapter on formats

[3] The filing fees was revised via gazette notification No. LAD-NRO/GN/2009-10/11/167759 on SEBI (Payment of Fees) (Amendment) Regulations, 2009 dated 29 June, 2009, The revised filing fee was applicable to those scheme(s) whose scheme information document(s) had been filed with SEBI on or after July 1, 2009.- SEBI Circular No - SEBI / IMD / CIR No. 5 / 169030 / 2009 dated July 8,2009

[4] SEBI Circular No. IIMARP/MF/CIR/01/428/97 dated February 28, 1997.

[5] Regulation 28 (1) of SEBI (Mutual Funds) Regulation 1996

responsible for the contents of soft copies of the SID. AMC shall also submit an undertaking to the Board while filing the soft copy of draft SID certifying that the information contained in the soft copy matches exactly with the contents of the hard copy filed with the Board.

c. In case of any inaccurate filing, the SID will be returned and refiling will be required. 21 working days[6] shall be calculated from the date of refiling;[7]

d. If any changes to the SID are made after filing, the 21 working day(s) period will recommence from the date of submission of the last additional statement(s)[8]

1.1.3.2 Filing of SAI

a. A single SAI (common for all the schemes) can be filed with Board along with first draft of SID or can be filed separately. After incorporating the comments/observations, if any, from the Board, AMC shall file a soft copy of SAI with the Board in PDF format alongwith printed copy of the same[9], upload the SAI on its website and on AMFI website.

1.1.3.3 Filing of Final SID

a. Final SID (after incorporating comments of the Board) must reach the Board before it is issued for circulation. Soft copy of the final SID in PDF format along with a printed copy should be filed with Board two working days prior to the launch of the

[6] Regulation 29(3) of SEBI (Mutual Funds) Regulation 1996

[7] SEBI Circular No. IIMARP/MF/CIR/01/428/97 dated February 28, 1997.

[8] SEBI Circular No. IIMARP/MF/CIR/01/428/97 dated February 28, 1997, SEBI Circular No. IIMARP/MF/CIR/07/844/97 dated May 5, 1997.

[9] SEBI Circular No – SEBI/IMD/CIR No.10/178129/09 dated September 29,2009

scheme. AMC shall also submit an undertaking to the Board while filing the soft copy that information contained in the soft copy of SID to be uploaded on SEBI website is current and relevant and matches exactly with the contents of the hard copy and that the AMC is fully responsible for the contents of the soft copy of SID. The soft copy of SID should also be uploaded on AMFI website two working days prior to launch of the scheme [10]. Failure to submit the printed SID to the Board before it is issued for circulation shall invite penalties under the Mutual Funds Regulations[11].

b. In case of any difference, in nature of material alteration of the suggestions made by the Board[12] between the printed SID and the SID filed with the Board, immediate withdrawal of the SID from circulation will be ordered and such withdrawal shall be publicized by the Board. [13]

1.2 Updation of SID & SAI

1.2.1 Updation of SID

1.2.1.1 For the schemes launched in the first half of a financial year, the SID shall be updated within 3 months from the end of the financial year. However, for the schemes launched in the second half of a financial year, SID shall be updated within 3 months of the end of

10 SEBI Circular No – SEBI/IMD/CIR No.10/178129/09 dated September 29,2009

11 SEBI Circular No. IIMARP/MF/CIR/07/844/97 dated May 5, 1997.

12 Regulation 29(2) of the Mutual Funds Regulations 1996

13 The existing schemes shall adopt the SID and KIM format as soon as possible but not later than 12 months from the date of issuance of the circular- SEBI/IMD/CIR No. 5/126096/08 dated May 23,2008. A confirmation in this regard shall be given in the half yearly trustee report.

the subsequent financial year. *(For example, for a scheme launched in May, 2008 the SID shall be updated by June 30, 2009 and for a scheme launched in December 2008, the SID shall be updated by June 30, 2010)* Thereafter, the SID shall be updated once every year.

1.2.1.2 The procedure to be followed in case of changes to the scheme shall be as under:

a. In case of change in fundamental attributes in terms of Regulation[14], SID shall be revised and updated immediately after completion of duration of the exit option.

b. In case of other changes:

1. The AMC shall be required to issue an addendum and display it on its website.
2. The addendum shall be circulated to allthe distributors/brokers/Investor Service Centre (ISC) so that the same can be attached to copies of SID already in stock, till the SID is updated.
3. In case any information in SID is amended more than once, the latest applicable addendum shall be a part of SID. *(For example, in case of changes in load structure the addendum carrying the latest applicable load structure shall be attached to all KIM and SID already in stock till it is updated).*
4. A public notice shall be given in respect of such changes in one English daily newspaper having nationwide circulation as well as in a newspaper published in the language of region where the Head Office of the Mutual Fund is situated.
5. The account statements issued to investors shall indicate the applicable load structure.

1.2.1.3 A copy of all changes made to the scheme shall be filed with Board within 7 days of the change. A soft copy of updated SID shall be filed with Board in PDF Format along with printed copy

[14] Regulation 18 (15A) of SEBI (Mutual Funds) Regulation 1996

of the same. AMC shall also submit an undertaking to the Board while filing the soft copy that information contained in the soft copy of SID to be uploaded on SEBI website is current and relevant and matches exactly with the contents of the hard copy and that the AMC is fully responsible for the contents of the soft copy of the SID[15].

1.2.2 Updation of SAI

1.2.2.1 A printed copy of SAI shall be made available to the investor(s) on request. SAI shall be updated within 3 months from end of financial year and filed with SEBI.

1.2.2.2 Any material changes in the SAI shall be made on an ongoing basis by way of updation on the Mutual Fund and AMFI website. SEBI shall be intimated of the changes made in the SAI within 7 days. The effective date for such changes shall be mentioned in the updated SAI.

1.2.2.3 A soft copy of updated SAI shall be filed with SEBI in PDF format along with printed copy of the same. AMC shall also submit an undertaking to SEBI while filing the soft copy that information contained in the soft copy of SAI to be uploaded on SEBI website is current and relevant and matches exactly with the contents of the hard copy and that the AMC shall be fully responsible for the contents of soft copy of SAI[16].

1.3 Validity of SEBI Observations on SID

1.3.1The AMCs shall file their replies to the modifications suggested by SEBI on SID as required under Regulation 29 (2), if any, within six months

[15] SEBI Circular No – SEBI/IMD/CIR No.10/178129/09 dated September 29,2009

[16] SEBI Circular No – SEBI/IMD/CIR No.10/178129/09 dated September 29,2009

from the date of the letter. In case of lapse of six-month period, the AMC shall be required to refile the SID alongwith filing fees.

1.3.2 The scheme shall be launched within six months from the date of the issuance of final observations from SEBI. If the AMC intends to launch the scheme at a date later than six months, it shall refile the SID with SEBI under Regulation 28 (1) along with filing fees.

1.4 Undertaking from Trustees for new Scheme[17]

1.4.1 In the certificate submitted by Trustees with regard to compliance of AMC with Regulations,[18]the Trustees are required to certify as follows:

"The Trustees have ensured that the (name of the scheme/Fund) approved by them is a new product offered by (name of the Mutual Fund) and is not a minor modification of any existing scheme/fund/product."

1.4.2 This certification shall be disclosed in the SID along with the date of approval of the scheme by the Trustees.

1.4.3 This certification is not applicable to close ended schemes except for those close ended schemes which have the option of conversion into open ended schemes on maturity.

1.5 Standard Observations

1.5.1 Standard Observations have been prescribed to ensure minimum level of disclosures in the SID and SAI[19].

1.5.2 SEBI may revise the Standard Observations from time to time and in that case the date of revision shall also be mentioned.

1.5.3 While filing the SID and SAI, AMC shall highlight and clearly mention the page number of the SAI and SID on which each standard observation has been incorporated.

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[17] SEBI Cir No IMD/CIR No.5/70559/06 dated June 30,2006

[18] Reg 18 (4) of SEBI (Mutual Funds) Regulations, 1996.

[19] For Standard Observations, please refer to Formats chapter

1.6 KIM

1.6.1 Application forms for schemes of mutual funds shall be accompanied by the KIM in terms of Regulation 29 (4). KIM shall be printed at least in 7 point font size with proper spacing for easy readability.

<u>1.6.2 Format of KIM</u>

1.6.2.1Mutual Funds shall prepare KIM in the prescribed format[20]. The contents of KIM shall follow the same sequence as prescribed in the format.

<u>1.6.3 Frequency of updation</u>

1.6.3.1 KIM shall be updated at least once a year and shall be filed with SEBI.

1.6.3.2 In case of changes in the SID other than changes in fundamental attribute in terms of Reg 18 (15A), the addendum circulated to all the distributors/brokers/investor Service Centre (ISC) shall be attached to KIM till the KIM is updated.

1.6.3.3 In case any information in SID is amended more than once, the latest applicable addendum shall be a part of KIM (For example, in case of changes in load structure the addendum carrying the latest applicable load structure shall be attached to all KIM and SID already in stock till it is updated).

1.7 Easy Availability of Offer Document

1.7.1 Trustees and AMCs shall ensure that the SID of the schemes and SAI are readily available with all the distributors/ISCs and confirm the same to SEBI in the half yearly trustee report.

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[20] For fomat of KIM please refer the chapter on formats

1.8 Selection of Benchmarks[21]

1.8.1 In case of equity oriented schemes, mutual funds may appropriately select any of the indices available, (e.g. BSE (Sensitive) Index, S&P CNX Nifty, BSE 100, BSE 200 or S&P CNX 500 etc.) as a benchmark index depending on the investment objective and portfolio.

1.8.2 Benchmarks for debt oriented and balanced fund schemes[22] developed by research and rating agencies recommended by the AMFI on a regular basis shall be used by the Mutual Funds

1.8.3 In case of sector or industry specific schemes, Mutual Funds may select any sectoral indices as published by the Stock Exchanges and other reputed agencies.

1.8.4 These benchmark indices may be decided by the AMC(s) and Trustees. Any change at a later date in the benchmark index shall be recorded and reasonably justified[23].

1.8.5 Examples of benchmarks are illustrated below:[24]

1.8.5.1 Growth funds maintaining minimum 65% of their investments in equities shall always be compared against The Bombay Stock Exchange Ltd. (BSE) Sensex or The National Stock Exchange Ltd. (NSE) Nifty or BSE 100 or CRISIL 500 or similar standard indices.

1.8.5.2 Income funds maintaining 65% or more of investments in debt instruments shall be compared with a suitable index that is a representative of the fund's portfolio.

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[21] SEBI Circular No. MFD/CIR/4/51/2000 dated June 5, 2000, SEBI Circular No. MFD/CIR/16/400/02 dated March 26, 2002, SEBI Circular No. MFD/CIR/01/071/02 April 15, 2002.

[22] SEBI Circular No. MFD/CIR/01/071/02 dated April 15, 2002.

[23] SEBI Circular No. MFD/CIR/16/400/02 dated March 26, 2002. Also please note that for review of scheme performance with benchmark indices please refer to section on governance norms.

[24] SEBI Circular No. MFD/CIR/4/51/2000 dated June 5, 2000

1.8.5.3 Balanced funds with equity investments of 40%-60% shall be compared with a tailored index having 50% of its weight selected from any equity index as above and the other 50% from an appropriate bond return index.

1.8.5.4 Money Market funds or liquid plans can be compared against a suitable Money Market Instrument or a combination of such instruments.

1.9 New Fund Offer (NFO) Period[25]

1.9.1 In case of open ended schemes, the NFO should be open for 30 days. The scheme should open for ongoing sales and repurchases within 30 days from the closure of the NFO of the scheme.

1.10 Discontinuation of the nomenclature – 'Liquid Plus Scheme(s)'[26]

1.10.1 The nomenclature "Liquid Plus Scheme(s)" has been discontinued from January 2009 since it gives a wrong impression of added liquidity. Mutual funds have been advised to carry out appropriate change(s) in the nomenclature of their scheme(s) designated as "Liquid Plus Scheme(s)".

1.11 Fundamental Attributes[27]

1.11.1 The words "fundamental attributes"[28] are elaborated below:

1.11.1.1 Type of a scheme

a. Open ended/Close ended/Interval scheme

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[25] SEBI circular no MFD/Cir.No 9/120/2000 dated November 24, 2000

[26] SEBI/IMD/CIR No.13/150975 / 09 dated January 19, 2009

[27] SEBI Circular No- IIMARP/MF/CIR/01/294/98 dated February 4, 1998

[28] as mentioned in clause (d) of sub-regulation (15) of regulation 18

b. Sectoral Fund/Equity Fund/Balance Fund/Income Fund/Debt Fund/Index Fund/Any other type of Fund

1.11.1.2 Investment Objective(s)

a. Main Objective - Growth/Income/Both.
b. Investment pattern - The tentative Equity/Debt/Money Market portfolio break-up with minimum and maximum asset allocation, while retaining the option to alter the asset allocation for a short term period on defensive considerations.

1.11.1.3 Terms of Issue

a. Liquidity provisions such as listing, repurchase, redemption.
b. Aggregate fees and expenses charged to the scheme.
c. Any safety net or guarantee provided.

CHAPTER 2

CONVERSION AND CONSOLIDATION OF SCHEMES AND LAUNCH OF ADDITIONAL PLAN

PART I - CONVERSION OF SCHEMES

2.1 Conversion of Close Ended Scheme(s) to Open Ended Scheme(s)[29]

2.1.1 Although the procedure for conversion of close ended scheme(s) to open ended scheme(s) has been clearly enumerated in the Mutual Funds Regulations[30], following requirements are clarified again in the interests of investors:

2.1.1.1 Since the scheme(s) would reopen for fresh subscriptions, disclosures contained in the SID shall be revised and updated. A copy of the draft SID shall be filed with the Board as required under Regulation 28(1) of the Mutual Funds Regulations along with filing fees prescribed under Regulation 28(2) of the Mutual Funds Regulations. Instructions issued by the Board[31] for filing of the SID shall also be followed.

2.1.1.2 A draft of the communication to be sent to unit holders shall be submitted to the Board which shall include the following:

a. Latest portfolio of the scheme(s) in the prescribed format[32]

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[29] SEBI Circular No. MFD/CIR No.22/2311/03 dated January 30, 2003.

[30] Regulation 33(3) of the Mutual Funds Regulations.

[31] SEBI Circular No. SEBI/IMD/Cir No 5/126096/08 dated May 23, 2008

[32] Refer to format of half yearly portfolio disclosure under chapter on formats.

b. Details of the financial performance of the scheme(s) since inception in the format prescribed in SID[33] along with comparisons with appropriate benchmark(s)[34].

c. The addendum to the SID detailing the modifications (if any) made to the scheme(s).

2.1.1.3 The letter to unit holders and revised SID (if any) shall be issued only after the final observations as communicated by the Board in terms of Regulation 29(3) of the Mutual Funds Regulations have been incorporated therein and final copies of the same have been filed with the Board.

2.1.1.4 Unit holders shall be given at least 30 days to exercise exit option. During this period, the unit holders who opt to redeem their holdings in part or in full shall be allowed to exit at the NAV applicable for the day on which the request is received, without charging exit load.

[33] Please refer to format of SID under chapter on Formats.

[34] For examples of Benchmarks, refer to chapter on SID

PART II – CONSOLIDATION OF SCHEMES

2.2 Consolidation of Schemes[35]

2.2.1 Any consolidation or merger of Mutual Fund schemes will be treated as a change in the fundamental attributes of the related schemes and Mutual Funds shall be required to comply with the Mutual Funds Regulations in this regard[36].

2.2.2 Further, in order to ensure that all important disclosures are made to the investors of the schemes sought to be consolidated or merged and their interests are protected; Mutual Funds shall take the following steps:

2.2.2.1 Approval by the Board of the AMC and Trustee(s):

a. The proposal and modalities of the consolidation or merger shall be approved by the Board of the AMC and Trustee(s), after they ensure that the interest of unit holders under all the concerned schemes have been protected in the said proposal.

2.2.2.2 Disclosures:

a. Subsequent to approval from the Board of the AMC and Trustee(s), Mutual Funds shall file the proposal with the Board, along with the draft SID, requisite fees (if a new scheme emerges after such consolidation or merger) and draft of the letter to be issued to the unit holders of all the concerned schemes.

b. The letter addressed to the unit holders, giving them the option to exit at prevailing NAV without charging exit load, shall disclose all

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[35] SEBI Circular No. SEBI/MFD/CIR No.5/12031/03 dated June 23, 2003.

[36] Regulation 18(15A) of the Mutual Funds Regulations.

relevant information enabling them to take well informed decisions. This information will include, *inter alia:*

1. Latest portfolio of the concerned schemes[37].
2. Details of the financial performance of the concerned schemes since inception in the format prescribed in SID[38] along with comparisons with appropriate benchmarks.
3. Information on the investment objective, asset allocation and the main features of the new consolidated scheme.
4. Basis of allocation of new units by way of a numerical illustration
5. Percentage of total NPAs and percentage of total illiquid assets to net assets of each individual scheme(s) as well the consolidated scheme.
6. Tax impact of the consolidation on the unit holders.
7. Any other disclosure as specified by the Trustees.
8. Any other disclosure as directed by the Board.

2.2.2.3 Updation of SID shall be as per the requirements for change in fundamental attribute of the scheme[39].

2.2.2.4 Maintenance of Records:

a. AMC(s) shall maintain records of dispatch of the letters to the unit holders and the responses received from them. A report giving information on total number of unit holders in the schemes and their net assets, number of unit holders who opted to exit and net assets held by them and number of unit holders and net assets in the consolidated scheme shall be filed with the Board within 21 days from the date of closure of the exit option[40].

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[37] Refer format of half yearly portfolio disclosure under chapter on Formats

[38] Please refer to SID Format under Chapter on Formats

[39] Please refer to SID chapter for further details

[40] SEBI Circular No- SEBI / IMD / CIR No 14 / 187175/ 2009 dated December 15,2009

PART III – LAUNCH OF ADDITIONAL PLANS[41]

2.3 Launch of Additional Plans

2.3.1 Additional plans sought to be launched under existing open ended schemes which differ substantially from that scheme in terms of portfolio or other characteristics shall be launched as separate schemes in accordance with the regulatory provisions.

2.3.2 However, plan(s) which are consistent with the characteristics of the scheme may be launched as additional plans as part of existing schemes by issuing an addendum. Such proposal should be approved by the Board(s) of AMC and Trustees. In this regard please note that:

2.3.2.1 The addendum shall contain information pertaining to salient features like applicable entry/exit loads, expenses or such other details which in the opinion of the AMC/ Trustees is material. The addendum shall be filed with SEBI 21 days in advance of opening of plan(s).

2.3.2.2 AMC(s) shall publish an advertisement or issue a press release at the time of launch of such additional plan(s).

[41] SEBI Circular No. SEBI / IMD / CIR No 14 / 187175/ 2009 dated December 15,2009

CHAPTER 3

NEW PRODUCTS

3.1 Fund of Funds Scheme[42]

3.1.1 The SID and the advertisements pertaining to Fund of Funds Scheme[43] shall disclose that the investors are bearing the recurring expenses of the scheme, in addition to the expenses of other schemes in which the Fund of Funds Scheme makes investments.

3.2 Gold Exchange Traded Fund Scheme[44]

3.2.2 A Gold Exchange Traded Fund (GETF) Scheme[45] shall invest primarily in:

3.2.2.1 Gold and

3.2.2.2 Gold related instruments.[46] However investments in gold related instruments shall be done only after such instruments are specified by the Board[47]

3.2.3 Valuation:

3.2.3.1 Gold shall be valued based on the methodology provided in Clause 3A of, Schedule Eight of the Mutual Funds Regulations[48].

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[42] SEBI Circular No. MFD/CIR. No.04/11488/2003 dated June 12, 2003.

[43] Regulation 2(ma) of the Mutual Funds Regulations introduced vide Gazette Notification No. S.O 632(E) dated May 29, 2003.

[44] SEBI Circular No. SEBI/IMD/CIR. No.4/58422/06 dated January 24, 2006, SEBI Circular No. SEBI/IMD/CIR No.2/65348/06 dated April 21, 2006, SEBI Circular No. SEBI/IMD/CIR No.14/84243/07 dated January 15, 2007.

[45] Regulation 2(mb) of the Mutual Funds Regulations introduced vide Gazette Notification No. S.O. 38(E) dated January 12, 2006.

[46] Regulations 2(mc) of the Mutual Funds Regulations introduced vide Gazette Notification No. S.O. 38(E) dated January 12, 2006.

[47] SEBI Circular No. SEBI/IMD/CIR No. 4/58422/06 dated January 24, 2006.

[48] SEBI Circular No. SEBI/IMD/CIR No.14/84243/07 dated January 15, 2007 read with Gazette Notification F. No. SEBI/LAD/DoP/82534/2006 dated December 20, 2006.

3.2.4 Determination of Net Asset Value[49]

3.2.4.1 The NAV of units under the GETF Scheme shall be calculated up to four decimal points as shown below:

$$\text{NAV (in Rs. terms)} = \frac{\text{Market or Fair Value of Scheme's investments + Current Assets - Current Liabilities and Provision}}{\text{Number of Units outstanding under Scheme on the Valuation Date}}$$

3.2.5 Recurring Expenses[50]

3.2.5.1The recurring expenses limits applicable to equity schemes[51] shall be applicable to GETF Scheme(s).

3.2.6 Benchmarks for GETF Scheme[52]

3.2.6.1GETF Scheme(s) shall be benchmarked against the price of gold.

3.3 Capital Protection Oriented Scheme[53]

3.3.1 The SID, KIM and advertisements pertaining to Capital Protection Oriented Scheme[54] shall disclose that the scheme is "oriented towards protection of capital" and not "with guaranteed returns." It shall also be indicated that the orientation towards protection of capital originates from the portfolio

[49] SEBI Circular No. SEBI/IMD/CIR No.2/65348/06 dated April 21, 2006.

[50] SEBI Circular No. SEBI/IMD/CIR No.2/65348/06 dated April 21, 2006.

[51] Regulation 52(6) of the Mutual Funds Regulations.

[52] SEBI Circular No. SEBI/IMD/CIR No.2/65348/06 dated April 21, 2006.

[53] SEBI Circular No. SEBI/IMD/CIR No.9/74364/06 dated August 14, 2006.

[54] Regulation 2(ea), 33(2A) and 38A of the Mutual Funds Regulations introduced vide Gazette Notification No. S.O. 1254(E) dated August 3, 2006.

structure of the scheme and not from any bank guarantee, insurance cover etc.

3.3.2 The proposed portfolio structure indicated in the SID and KIM shall be rated by a Credit Rating Agency registered with the Board from the view point of assessing the degree of certainty for achieving the objective of capital protection and the rating shall be reviewed on a quarterly basis.

3.3.3 The Trustees shall continuously monitor the portfolio structure of the scheme and report the same in the Half Yearly Trustee Reports[55] to the Board. The AMC(s) shall also report on the same in its bimonthly (CTR(s)[56]to the Board.

3.3.4 It shall also be ensured that the debt component of the portfolio structure has the highest investment grade rating.

3.4 Real Estate Mutual Funds[57]:

3.4.1 A real estate mutual fund scheme[58] can invest in real estate assets in the cities mentioned in:

3.4.1.1 List of Million Plus Urban Agglomerations/Cities; or
3.4.1.2 List of Million Plus Cities

3.4.2 Such list appears in Census Statistics of India (2001) at www.censusindia.gov.in. A printout of cities which appear in the foresaid categories taken from the said website is attached for ready reference at **Annexure4.**

55 For format of Half Yearly Trustee Report please refer Chapter on Formats

56 For format of bimonthly CTR please refer Chapter on Formats
57 SEBI Circular No - SEBI/IMD/CIR No.4/124477/08 May 2,2008
58refer Regulation 49 A(a)(i)

CHAPTER 4

RISK MANAGEMENT SYSTEM[59]

4.1 An Operating Manual[60] for Risk Management has been developed to ensure minimum standards of due diligence and Risk Management Systems for all the Mutual Funds in various operational areas (for e.g. Fund Management, Operations, Customer Service, Marketing and Distribution, Disaster Recovery and Business Contingency, etc.) and is enclosed herewith as **Annexure 2**.

4.2 The Risk Management practices covered in the Operating Manual are under three categories as detailed below:

4.2.1 Existing Industry Practices:

4.2.1.1 Under each head of risk, the Manual covers the exemplary practices followed by some / most of Mutual Funds in India. However, the extent and degree of observance of these practices differs among the Mutual Funds. Mutual Funds shall accordingly develop their systems and follow these practices.

4.2.2 Practices to be followed on Mandatory Basis:

4.2.2.1 Mutual Funds shall follow the practices which have been indicated as mandatory in the operating manual. These are Risk Management function that shall be assigned to Compliance Officer or Internal Risk Management Committee or to an external agency

a. Disaster Recovery and Business Contingency plans, and

[59] SEBI Circular No. MFD/CIR/15/19133/2002 dated September 30, 2002.

[60] The Manual has been developed by AMFI in association with Pricewaterhouse Coopers as a part of Indo-US Financial Institutions Reforms and Expansion Project.

b. Insurance cover against certain risks.

4.2.3 Best Practices to be followed by Mutual Funds:

4.2.3.1 Mutual Funds shall adopt these practices as a part of their due diligence exercise after considering the size of their operations.

4.3 Implementation of the Risk Management System

4.3.1 Mutual Funds shall adopt the following approach to implement the Risk Management System:

4.3.2 Identification of observance of each recommendation:

4.3.2.1 Mutual Funds shall identify areas of current adherence as well as non-adherence of various Risk Management practices under each of the aforesaid three categories. They shall examine the areas where development or improvement of systems is required.

4.3.2.2 After identifying the same, Mutual Funds shall review the progress made on implementation of the systems on a monthly basis and place the progress report in periodical meetings of the Board of the AMC and Trustees.

4.3.3Review of Progress of implementation by Board of AMC and Trustee(s):

4.3.3.1The Board of the AMC and Trustee(s) shall review the progress made by the Mutual Funds with regard to Risk Management practices and the same shall be reported to the Board at the time of sending CTR(s) and Half Yearly Trustee Reports.

4.3.4Review by Internal Auditors:

4.3.4.1 The review of Risk Management Systems shall be a part of internal audit and the auditors shall check their adequacy on a continuing basis. Their reports shall be placed before the Board of the AMC and Trustee(s) who shall comment on the adequacy of systems in the CTRs and Half Yearly Reports filed with the Board.

CHAPTER 5

DISCLOSURES & REPORTING NORMS

PART I - DISCLOSURES

5.1 Half Yearly disclosure of Portfolios[61]

5.1.1 Mutual Funds shall send a complete statement of Scheme Portfolio to the unit holders before the expiry of one month from the closure of each Half Year (i.e. March 31 and September 30), if such statement is not published by way of advertisement[62].

5.1.2 The Scheme Portfolio(s)[63] shall also be disclosed on the Mutual Funds' web sites before the expiry of one month from the closure of each Half Year (i.e. March 31 and September 30) and a copy of the same shall be filed with the Board along with the Half Yearly Results[64].

5.2 Unaudited Half Yearly Financials [65]

5.2.1 The publication of the unaudited half-yearly results in news paper and websites shall be made in the format prescribed in Twelfth Schedule in line with provisions of the Regulations[66].

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[61] SEBI Circular No. MFD/CIR No.010/024/00 dated January 17, 2000, SEBI Circular No. MFD/CIR/9/120/2000 dated November 24, 2000, SEBI Circular No. MFD/CIR No.10/310/01 dated September 25, 2001, SEBI Circular No. MFD/CIR/14/18337/2002 dated September 19, 2002, SEBI Circular No. IMD/CIR 8/132968/2008 dated July 24, 2008

[62] Regulation 59A of the Mutual Funds Regulations & SEBI Circular No. MFD/CIR No.010/024/00 dated January 17, 2000.

[63] For format of half yearly portfolio, please refer to the formats chapter

[64] SEBI Circular No. MFD/CIR No.10/310/01 dated September 25, 2001.

[65] SEBI Circular MFD/CIR/1/200/2001 dated April 20, 2001 & SEBI Circular No. IMD/CIR No.8/132968/2008 dated July 24, 2008

[66] Reg 59 of SEBI (Mutual Funds) Regulations, 1996.

5.2.2 The half yearly results must be published before the expiry of one month from the close of each half year. Copies of the advertisements carrying the results must be filed with SEBI within 7 days from the date of publication[67].

5.3 Abridged Schemewise Annual Report Format[68]

5.3.1The Abridged Schemewise Annual Report[69] may be mailed to the investors' e-mail address if so mandated by the investor and the Scheme wise Annual Report shall be displayed on the website of the mutual fund. These websites should also be linked with AMFI website so that the investors and analyst(s) can access the annual reports of all mutual funds at one place[70]. However, as per the Regulations[71], a copy of Scheme wise Annual Report shall be also made available to unitholder(s) on payment of nominal fees.

5.4 Disclosure of large unit holdings[72]

5.4.1 The number of investors holding over 25 % of the NAV[73] in a scheme and their total holdings in percentage terms shall be disclosed in the Statement of Accounts issued after the NFO and also in the Half Yearly and Annual Results[74].

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[67] For format of Half Yearly Financials, please refer to the formats chapter
[68] SEBI Circular No. IMD/CIR No.8/132968/2008 dated July 24, 2008
[69] For format of abridged schemewise report, please refer the formats chapter
[70] SEBI Cir No – MFD/CIR/15/041/2002 dated March 14,2002
[71] regulation 56(1) & 56(3)
[72] SEBI Circular No. MFD/CIR No.3/211/2001 dated April 30, 2001.

[73] For further details, refer Section II – Scheme Governance in the Chapter on Governance Norms

[74] Please refer the format chapter for requisite formats

5.5 Portfolio disclosure for debt oriented close-ended and interval schemes/plans[75]

5.5.1 AMCs shall disclose the portfolio of such schemes in the prescribed format[76] on a monthly basis on their respective websites.

5.5.2 The said disclosure of the portfolio as on the last day of the month shall be made on or before 3rd working day of succeeding month. For example, portfolio as of March 31, 2009 shall be disclosed by April 04, 2009 - April 3, 2009 being a non working day.

5.6 Annual report of the AMC [77]

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

5.7 Submission of bio data of key personnel[78]

5.7.1 AMCs are required to submit the bio data of all key personnel to Trustees and the Board. For this purpose, 'key personnel' would be the Chief Executive Officer (CEO), fund manager(s), dealer(s) & heads of other departments of the AMC[79].

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[75] SEBI Circular No. IMD/CIR No.15/157701/2009 dated March 19, 2009
[76] For portfolio format please refer to chapter on formats
[77] MFD/CIR/9/120/2000 dated November 24,2000
[78] IIMARP/CIR /08/845/97 DATED May 7,1997,IIMARP/MF/CIR/05/788/97 dated April 28,1997
[79] For format of bio-data of key personnel, please refer the chapter on formats

PART II - REPORTS

5.8 Monthly Cumulative Report (MCR)[80]

5.8.1 Date and Mode Of Submission:

5.8.1.1 MCR[81] shall be submitted to the Board by 3rd of each month by way of an email. Hard copy should also be sent by hand delivery/courier.

5.8.2 Other Guidelines:

5.8.2.1 Details of the new schemes launched shall be reported in the MCR for the month in which the allotment is done. For example, if an NFO closes in the month of July and the allotment is done in the month of August, then, the details of the new scheme shall be reported in the MCR for the month of August that will reach SEBI by 3rd of September.

5.8.2.2 Further, additional report on overseas investment[82] by Mutual Funds in ADRs/GDRs, foreign securities and overseas exchange traded funds (ETFs) shall also be provided as per the prescribed format. For format please refer to the chapter on formats.

5.8.2.3 Compliance officers of all the Mutual Funds are advised to take due care while forwarding the MCR data to SEBI. Compliance Officers shall confirm that the data forwarded is correct and does not require any revision.

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[80] SEBI circular MFD/CIR/07/206/2001 dated July 19, 2001, SEBI circular No IMD/Cir No.15/87045/2007 dated February 22, 2007, SEBI circular SEBI/IMD/CIR No 3/124444/08 dated April 30, 2008.

[81] For format of MCR please refer to chapter on formats.

[82] SEBI Circular No. SEBI/IMD/CIR NO 15/87045/07 dated February 22,2007

5.9 New Scheme Report (NSR)[83]

5.9.1 All Mutual Funds shall submit the NSR to SEBI complete in all respects within 10 working days from the date of allotment in the prescribed format[84].

5.10 Bi–monthly Compliance Test Reports[85]

5.10.1 AMCs' shall do exception reporting on a bi-monthly basis. AMCs' are required to report only exceptions in the CTR to SEBI, i.e. AMCs' shall report for only those points in the CTR where they have not complied with the same. The details sought in the annexures of the CTR shall be furnished to the Board in case of non-compliance only along with exception report. This exception report shall also be placed before the Trustee(s).

5.10.2 The CTRs[86] should be submitted by the AMC to the Board once in every two months so as to reach within 21 days of completion of the two months period. As a compliance of SEBI Regulations is a continuous process, AMCs are advised to incorporate the modifications/additions under the relevant sections of the format, based on amendments to the Regulations/guidelines issued in the future from time to time.

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[83] SEBI Circular No. SEBI/IMD/CIR NO 13/118899/08 dated February 29, 2008, SEBI Circular No MFD/CIR/12/16588/02 dated August 28, 2002 & SEBI Circular No IIMARP/MF/CIR/05/788/97 dated April 28, 1997, SEBI Circular No. IIMARP/10772/93 dated July 14,1993,

[84] For details on format of NSR please refer the formats chapter.

[85] SEBICircular No. SEBI/IMD/CIR NO 6/98057/07 dated July 5, 2007, SEBI Circular No MFD/CIR/11/36222/2005 dated March 16,2005,SEBI Circular No IIMARP/MF/CIR/10/1076/97 dated June 05,1997 & SEBI Circular No.MFD/CIR/5/360/2000 dated July 4, 2000,

[86]For CTR format, please refer the formats chapter.

5.11 Annual Statistical Report (ASR)[87]

5.11.1 AMC should submit the annual statistical report to SEBI in the prescribed format by 30th of April each year[88].

5.12 Daily Transaction Report[89]

5.12.1 All Mutual Funds shall submit details of transactions in secondary market on daily basis in the prescribed format[90]. Accordingly, Mutual Funds are advised to make necessary arrangements with their custodians for the submission of reports on a daily basis. The report is to be submitted to the Board in both hard as well as soft copy.

5.12.2 It must be ensured by the compliance officers of the custodians as well as that of Mutual Funds that the information submitted is correct and reaches the Board by 3.00 p.m. on the following working day (T+1).

5.13 Responsibilities of AMC(s) and Trustees[91]

5.13.1 All information and documents relating to the compliance process shall be authenticated and/or adopted by the Board of the AMC(s) to strengthen the compliance mechanism.

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[87] IIMARP/CIR /08/845/97 DATED May 7,1997, MFD/CIR/02/110/02 dated April 26,2002, SEBI Cir No- IMD/CIR No 6/72245/06 dated July 20,2006,

[88] For format of ASR refer the chapter on formats

Quarterly Movement of Net Assets- SEBI CIR – IIMARP/MF/CIR/05/788/97 dated April 28, 1997 required mutual funds to submit the statement for quarterly movement of net assets. However, SEBI circular MFD/CIR/12/16588/02 dated August 28,2002 stated that such Statement of movement of net assets /portfolios are no more to be submitted

[89] SEBI Circular No.MFD/CIR/07/384/99 dated December 17, 1999 and MFD/CIR/08/23026/99 dated December 23, 1999

[90] For format of daily transaction report, please refer the chapter on formats

[91] SEBI Circular No. MFD/CIR/09/014/2000 dated January 5, 2000, SEBI Circular No. SEBI/MFD/CIR/10/039/2001 dated February 9, 2001.

5.13.2 The Trustee(s) shall also review all information and documents received from the AMC(s) as required under the compliance process.

5.13.3 AMC(s) shall develop a suitable Management Information System for reporting to the Trustees. The report shall contain specific comments on all issues related to the operation of the Mutual Fund as undertaken by the AMC including those provided in the format for reporting by AMC to Trustees[92].

5.13.4 The half-yearly report on the activities of the mutual fund to be submitted by the trustees to the Board under the Mutual Funds Regulations [93]shall cover all issues mentioned in the prescribed format as well as any other issue relevant to the operation of the Mutual Fund [94].The Trustees may mention in their report, if they so desire, that they have relied on the reports obtained from the independent auditor or internal/ statutory auditors or the Compliance Officer as the case may be. The report shall mention that the Trustees have satisfied themselves about the adequacy of compliance systems in the Mutual Fund.

5.13.5 AMC(s) and the Trustees shall update the reporting formats including relevant provisions of amendments made to the Mutual Funds Regulations and/or guidelines and/or circulars issued by the Board and shall specifically comment on their compliance.

5.14 Filing of Annual Information Return by Mutual Funds[95]

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[92] Please refer the formats chapter for format for reporting by AMC to Trustees

[93] Regulation 18(23)(a) of SEBI (MF) Regulations, 1996

[94] For format of Trustee Report, please refer to the formats chapter.

[95] SEBI cir no IMD/CIR No.8/73580/06 dated August 4,2006

It may be noted that Annual Information Returns (AIRs) constitute an important source of information to Income Tax Department and, as such, it is imperative that the data furnished to them is complete and accurate in all respects. It is therefore advised that to re-check the accuracy of the data furnished by your office for the Financial Year 2004-05 and ensure that all

5.14.1 Mutual Funds are required to submit the Annual Information Return under section 285 BA in the Income-tax Act. As per this requirement, Trustees of Mutual Funds or such other person managing the affairs of the Mutual Funds (as may be duly authorized by the trustees in this behalf) have to report specified financial transactions in electronic media to Income Tax Department giving PAN of the transacting parties in an Annual Information Return (AIR).

5.14.2. Some common errors in these returns have been pointed out by the Directorate of Income Tax (Systems) as:

5.14.2.1. Not mentioning PAN or mentioning invalid PAN.

5.14.2.2. Entering incomprehensible/ incomplete names of transacting parties, e.g. names of 2 or 3 letters.

5.14.2.3. Entering incomprehensible/ incomplete addresses of transacting parties, e.g. 'Nil', 'N/A', '_', in all address fields, incomplete postal addresses, names of buildings split into separate fields, names of two cities in address fields, wrong PIN codes, etc.

5.14.2.4 Incorrect district and state codes.

5.14.2.5 Incorrect transaction codes.

5.14.2.6 Wrongly showing transaction as of 'Govt.' party.

5.14.3 In this regard, AIRs are required to be filed only by the Mutual Fund and no separate AIR has to be furnished for each scheme of the Mutual Fund.

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the columns are correctly filled-in and submit a 'Supplementary Information Report', if need be, to the Income Tax Department.
The AIRs for the financial year 2005-2006 are required to be filed before August 31, 2006.

CHAPTER 6

GOVERNANCE NORMS

PART I - FUND GOVERNANCE

6.1. Formation of Audit and Valuation Committees by the Trustees and/or AMC[96]

6.1.1. Audit Committee

6.1.1.1. Trustees shall constitute an audit committee, comprising of the Trustees and chaired by an Independent Trustee to review the internal audit systems and recommendations of the internal and statutory audit reports and ensure that the rectifications as suggested by internal and external auditors are acted upon.

6.1.2. Valuation Committee

6.1.2.1. The AMC shall constitute an in-house valuation committee consisting of senior executives including personnel from accounts, fund management and compliance departments. This committee shall, on a regular basis review the systems and practices of valuation of securities.

6.2 Review and Reporting of Transactions[97]

6.2.1 Reporting of transactions

[96] SEBI Circular No. MFD/CIR No.010/024/2000 dated January 17, 2000.

[97] SEBI Circular No. MFD/CIR/09/014/2000 dated January 5, 2000, SEBI Circular No. MFD/CIR No.010/024/2000 dated January 17, 2000, SEBI Circular No. SEBI/MFD/CIR/10/039/2001 dated February 9, 2001.

6.2.1.1 Transaction(s) by directors of the AMC

a. Directors of the AMC shall file with the trustees on a quarterly basis details of transactions in securities exceeding Rs. 1 lakh[98].

6.2.1.2 Trustee(s) Directors

a. Trustees are required to report to Mutual Funds only those transactions in securities that exceed Rs. 1 lac in value[99].

6.2.2 Review of transactions

6.2.2.1 Trustees shall review all transactions of the Mutual Fund with the associates as defined below on a regular basis and ensure that Regulations are complied with[100].

6.3 Role of Independent Director on the Board of the AMC and Independent Trustees[101]

6.3.1 An Independent Trustee shall not be associated in any manner with the Sponsor(s)[102]. The independent directors on the Board of the AMC shall not be associate of, or associated in any manner with, the sponsor or any of its subsidiaries or the trustees[103].

6.3.2 An 'associate' shall be defined as:

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[98] SEBI Circular No. SEBI/MFD/CIR/10/039/2001 dated February 9, 2001.

[99] Regulation 18(11) of SEBI (MF) Regulations, 1996 and SEBI Circular No. MFD/CIR/09/014/2000 dated January 5, 2000.

[100] Regulations 18 (6) and 18 (7) and SEBI Circular No. MFD/CIR No.010/024/2000 dated January 17, 2000.

[101] SEBI Circular No. MFD/CIR/11/354/2001 dated December 20, 2001, SEBI Circular No. MFD/CIR/13/16799/2002 dated August 29, 2002, SEBI Circular No. MFD/CIR/17/21105/2002 dated October 28, 2002.

[102] See Regulation 16(5) of the SEBI (Mutual Funds) Regulations, 1996.

[103] See Regulation 21(d) of the SEBI (Mutual Funds) Regulations, 1996.

6.3.2.1 Relatives[104] of Sponsor(s) or directors of the Sponsor Company or relatives of Associate Directors of the AMC(s) and Trustee.

6.3.2.2 Persons providing any type of professional service to the Mutual Funds, the AMC and the Trustees and the Sponsor(s). Also, persons having a material pecuniary relationship with the above mentioned entities that may, in the judgment of the Trustees, affect their independence.

6.3.2.3 Nominees of the companies who are stakeholders in the Sponsor company or AMC(s) (even if they are not deemed sponsors by virtue of holding less than 40% of net worth of AMC(s)).

6.3.3 Cooling off Period

6.3.3.1 An "Associate"[105] as defined above cannot be appointed as Independent Director even after he ceases to be an "Associate" unless a cooling off period of three years has elapsed from the date of his disassociation. For example, an employee of the Sponsor(s) or their associate companies or AMC(s) or Trustees resigns on December 1, 2001 then he cannot be appointed as an Independent Director till December 1, 2004. During this intervening period, he can be appointed only as Associate Director. However, if he is taken as an Associate Director, say on December 2, 2001, then he cannot be considered as "Independent" from December 2, 2004. There must be a cooling off period of 3 years from the date he ceases to be an Associate Director.

6.3.4 Mutual Funds are required to have a minimum of 50 per cent. and two-third independent directors on the Board of the AMC(s) and

[104] As defined under Section 6 of the Companies Act 1956.

[105] Regulation 2(c) of the SEBI (Mutual Funds) Regulations, 1996.

Trustees respectively.[106] In case the composition of the directors does not meet these requirements, Mutual Funds are required to inform the Board along with the steps proposed to ensure compliance.

6.3.5 AMC(s) or Trustees shall appoint Independent Directors in place of the resigning director(s) within a period of 3 months from the date of resignation. Where Mutual Funds are unable to meet this time limit, they shall report to the Board explaining the reasons for non compliance. Mutual Funds may maintain a panel of eligible persons who can be appointed as Independent Directors[107] as and when required. They may also consider appointing more than the required minimum number of Independent Directors to enhance the standards of corporate governance and also to meet the regulatory requirements in case of resignation of an independent director.

6.3.6 On appointment of new directors of the AMC or Trustee, their bio-data[108] shall be filed with the Board for information or approval respectively.

6.4 Investment and/or for / Trading in Securities by the employees of the AMC(s) and Trustee(s) [109]

6.4.1The Board of the AMC and Trustees shall ensure compliance with these Guidelines on a continuous basis and shall report any violations and remedial action taken by them in the periodical reports submitted to the Board[110].

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[106] Regulation 21(d) and Regulation 16(5) of the SEBI (Mutual Funds) Regulations, 1996.

[107] For biodata of directors (AMC and Trustee), please refer to chapter on formats

[108] For biodata of directors (AMC and Trustee), please refer to chapter on formats

[109] SEBI Circular No. MFD/CIR No.4/216/2001 dated May 8, 2001, SEBI Circular No. SEBI/IMD/CIR No.7/13391/03 dated July 11, 2003.

[110] Regulation 25(9) & 23(b) of SEBI (MF) Regulations, 1996

6.4.2 The guidelines enumerated below specify the minimum requirements that have to be followed. The AMC(s) and Trustees are free to set more stringent norms for investment and/or trading in securities by their employees.

6.4.3 Guidelines for Investment and/or Trading in Securities by Employees of AMC(s) and Trustees

6.4.3.1 Applicability

a. These Guidelines shall be applicable to all employees of AMC(s) and Trustees and shall form a part of the Code of Conduct for employees adopted by the AMC(s) and/or Trustees. New employees shall be bound by these Guidelines from the date of joining the AMC(s) and/or Trustees.

b. These Guidelines shall cover transactions for sale or purchase of securities made in the employees' name, either individually or jointly, and in the name of the employees' spouse and/or dependent children and transactions as a member of HUF.

6.4.3.2 The objectives and principles of these Guidelines are:

a. To ensure that all securities transactions made by employees in their personal capacity are conducted in consonance with these Guidelines and in such manner as to avoid any actual or potential conflict of interest or any abuse of an individual's position of trust and responsibility.

b. The employees of AMC(s) and Trustees especially Access Persons shall not take undue advantage of any price sensitive information that they may have about any company. Access Person for the purpose of these Guidelines shall mean the Head of the AMC (designated as CEO/Managing

Director/President or by any other name), the Fund Managers, Dealers, Research Analysts, all employees in the Fund Operations Department, Compliance Officer and Heads of all divisions and/or departments or any other employee as decided by the AMC(s) and/or Trustees.

c. To guide employees of AMC(s) and Trustees in maintaining a high standard of probity that one would expect from an employee in a position of responsibility.

6.4.4 General

6.4.4.1 Investments Covered:

a. These Guidelines cover transactions for purchase or sale of any securities such as shares, debentures, bonds, warrants, derivatives and units of Mutual Fund schemes.

b. These Guidelines do not apply to the following investments by the employees:

1. Investments in Fixed Deposits with banks and/or Financial Institutions and/or companies, Life Insurance Policies, Provident Funds (including Public Provident Fund) or investment in savings schemes such as National Savings Certificates, National Savings Schemes, Kisan Vikas Patra, or any other similar investment.

2. Investments of a non-financial nature such as gold etc.,[111] where there is no likely conflict between the Mutual Fund's interest and the employees' interest.

[111] Real Estate has been deleted pursuant to the amendment to the Mutual Funds Regulations launching the Real Estate Mutual Funds Schemes wherein guidelines have been prescribed for employee investment in Real Estate.

3. Investments in government securities, Money Market instruments and Money Market Mutual Fund schemes.

6.4.4.2 No employee shall pass on information to anybody inducing him to buy/sell securities which are being bought and/or sold by the Mutual Fund of which the AMC is the investment manager.

6.4.4.3 Prior approval of personal investment transactions:

a. All access persons except Compliance Officer shall apply in the form prescribed by the AMC(s) and/or Trustees to the Compliance Officer for prior approval of transactions for sale or purchase of securities other than those expressly stated to be exempt under these guidelines. The Compliance Officer shall apply to the Head of the AMC(s). The decision of the Compliance Officer shall be final and binding on the employee.

b. In these Guidelines, in the case of the Compliance Officer's own transactions for purchase or sale of securities or disclosure or any other related matter, the term "Compliance Officer" wherever it appears, shall be read as "Head of the AMC."

c. The Compliance Officer may coordinate with the Fund Management Department of the Mutual Fund, wherever necessary, to clear requests of investment and/or trading in securities by the employees.

d. The approval of Compliance Officer for carrying out a transaction of sale or purchase of a security by the access person shall not be valid for more than seven calendar days from the date of approval[112].

[112] SEBI Circular No. SEBI/IMD/CIR No.7/13391/03 dated July 11, 2003.

e. If a transaction approved by Compliance Officer has not been effected within seven[113] calendar days from the date of its approval, the access person shall be required to obtain approval once again from Compliance Officer prior to effecting the transaction.

f. All employees shall refrain from profiting from the purchase and sale or sale and purchase of any security within a period of 30 calendar days from the date of their personal transaction[114]. However, in cases where it is done, the employee shall provide a suitable explanation to the Compliance Officer, which shall be reported to the Board of the AMC and the Trustees at the time of review.

6.4.5 Investments in Shares and/or Debentures and/or Bonds and/or Warrants and/or Derivatives - Investments in securities shall broadly be classified into investments through (a) primary markets and (b) secondary markets

6.4.5.1 Investments through the primary markets:

a. An employee including access person is permitted to apply to a public issue of shares and/or debentures and/or bonds and/or warrants of any company, as long as the application is made in the normal course of the public issue. Such an application may be made without seeking the clearance from the Compliance Officer. Employees of AMC(s) and Trustees are prohibited from applying in any reserved quota such as promoters' quota, employees' quota etc. Employees shall not participate in any private placement of equity by any company.

[113] SEBI Circular No. SEBI / IMD / CIR No 14 / 187175/ 2009 dated December 15,2009
[114] SEBI Circular No. SEBI/IMD/CIR No.7/13391/03 dated July 11, 2003.

b. Notwithstanding anything stated in (a) above, an employee of an AMC(s) and/or Trustees may apply for shares and/or debentures and/or bonds and/or warrants in a preferential offer, in cases where such a preferential offer is being made by a company that belongs to the same industrial group as the company in which the employee already has an investment, provided that such a preferential offer is made to all shareholders and/or debenture holders of such companies. Details of such applications made shall be intimated to the Compliance Officer.

c. The employees of the AMC(s) and/or Trustees including access person may apply for any rights offer of any company in which they are already shareholders. Applications for additional rights (over and above the normal rights entitlement) shares may be made by the employees including access person without getting the clearance from the Compliance Officer. An employee including access person may also sell and/or renounce his rights entitlement without getting the clearance from the Compliance Officer. However, if an access person wishes to purchase the "Rights renunciations" he shall get the clearance of the Compliance Officer for the same. Such purchases shall be done only at market prices. Details of any applications made in any rights issue, whether in the normal course, or through purchase of rights renunciations, shall be intimated to the Compliance Officer.

6.4.5.2 Investments through the secondary markets:

a. An access person who wishes to make a secondary market transaction shall submit a written application to that effect to the Compliance Officer. Such an application shall specify the name of the company whose securities the employee wishes to buy and/or sell, type of security, and the number of shares and/or debentures and/or bonds and/or warrants and/or derivatives that the access person wishes to buy/sell.

b. The Compliance Officer shall clear these requests if the following conditions are met:

   1. If the shares and/or debentures and/or bonds and/or warrants of the company or derivatives specified by the access person are not held by any scheme of the Mutual Fund of which the AMC is the investment manager;

   2. If such shares and/or debentures and/or bonds and/or warrants of the company or derivatives specified by the employee are held by any scheme of the Mutual Fund of which the AMC is the investment manager, there should be a "cooling off" period of 15 calendar days. The Compliance Officer shall ensure that the last transaction in that particular security was done by the Mutual Fund at least 15 calendar days prior to the date of the written application by the access person. In other words, an application for a purchase /sale transaction on a personal basis would be cleared only if the Mutual Fund has not transacted in that particular security for at least 15 calendar days.

c. The Compliance Officer shall keep a track of the transactions of the employees and transactions of the Mutual Fund to ensure that there is no conflict of interest between them i.e. the Compliance Officer should track whether the Mutual Fund has transacted in the same securities either before or after the employee's transaction(s).

d. The Compliance Officer shall maintain a record of all requests for pre clearance regarding the purchase or sale of a security, including the date of the request, the name of the access person, the details of the proposed transaction and whether the request was approved or denied and waivers given, if any, and its reasons.

e. No employee shall purchase any security (including derivatives) on a “Carry Forward” basis or indulge in “Short Sale” of any security (including derivatives) i.e. employees who effect any purchase transaction(s) shall ensure that they take delivery of the securities purchased, before selling them.

f. Any transaction of Front Running by any employee directly or indirectly is strictly prohibited. For this purpose, “Front Running” means any transaction of purchase and/or sale of a security carried by any employee whether for self or for any other person, knowing fully well that the AMC also intends to purchase and/or sell the same security for its Mutual Fund operations. To ascertain that the employee had no prior knowledge of the Mutual Fund's intended transactions, the Compliance Officer may take a declaration in this regard from the employee. Such declaration may be included in the application form itself.

g. Any transaction of self dealing by any employee either directly or indirectly, whether alone or in concert with another person is prohibited. For this purpose, “Self Dealing’ means trading in the securities based on price sensitive information to which the employee has access by virtue of his office. Declaration to this effect may be taken from the employee while clearing the proposals for investment.

h. The employees shall not insist or suggest to the concerned brokers to charge reduced brokerage, or accept any contract with a clause on reduced brokerage charge.

6.4.6 Investments in units of Mutual Fund Schemes

6.4.6.1 Access persons as well as other employees do not require prior permission of the Compliance Officer for purchase or sale of units of Mutual Fund schemes. However, details of each such transaction, excluding transactions in Money Market Mutual Fund schemes shall be reported by them to the Compliance Officer within 7 calendar days from the date of transaction.

6.4.6.2 In case of investments in SIP of any Mutual Fund scheme, the employees may report only at the time of making the first installment of the SIP.

6.4.6.3 Notwithstanding anything mentioned earlier, in the following cases employees of AMC & Trustees shall not purchase or sell /or repurchase or redeem units of any scheme, including Money Market Mutual Fund scheme of their Mutual Fund:

a. There is a likelihood of a change in the investment objectives of the concerned Mutual Fund Scheme(s) and this has not been communicated to the investors;

b. There is a likelihood of a rights and/or bonus issue in the concerned Mutual Fund Scheme(s) and this has not been communicated to the investors;

c. The concerned Mutual Fund Scheme is contemplating to issue dividend to the unit holders and this has not been communicated to the investors;

d. There is a likelihood of a change in the accounting policy, or a significant change in the valuation of any asset, or class of assets and the same has not been communicated to the investors;

e. There is a likelihood of conversion of a close ended scheme to an open ended scheme and vice versa and this has not been communicated to the investors.

6.4.7 Periodic Disclosures

6.4.7.1 All access persons shall submit, in the form prescribed by the Mutual Fund of which the AMC is the investment manager, details of their personal transactions of purchase or sale of securities to the Compliance Officer. The details to be submitted are as follows:

a. Details of transactions effected for purchase and/or sale of securities including transactions in rights entitlements through the secondary market within 7 calendar days from the date of transaction;

b. Details of allotment received against application for public and rights issues within 7 calendar days from the date of receipt of the allotment advice;

c. A statement of holding in securities as on March 31 within 30 calendar days from the end of every financial year ending March 31.

6.4.7.2 All employees other than access persons shall submit, in the form prescribed by the Mutual Fund, to the Compliance Officer:

a. Details of each of their transactions for purchase or sale of securities including allotment in public and rights issues within 7 calendar days in tandem with SEBI (Insider Trading) Regulations.

b. A statement of holding in securities as on March 31 within 30 calendar days (in tandem with SEBI (Insider Trading) Regulations) from the end of every financial year ending March 31.

c. A declaration shall also be included in the reporting form on the lines of clause 6.4.5.2. (f) and 6.4.5.2. (g) regarding Front Running and Self Dealing.

6.4.8 Review by the Board of Directors of AMC and the Trustee(s)

6.4.8.1 The Board of the AMC and the Trustees shall review the compliance of these Guidelines in their periodic meetings. They shall review the existing procedures and recommend changes in procedures based on the AMCs experience, industry practices and/or developments in applicable laws and regulations. They shall report compliance and any violations and remedial action taken by them in their reports submitted to the Board.

6.5 Responsibilities of AMC & Trustees[115]

6.5.1 For effective discharge of their responsibilities under the Mutual Funds Regulations, the AMC(s) shall provide infrastructure and administrative support to the Trustees. The Mutual Fund may decide to appoint independent auditors and/or may have separate full fledged administrative set up for the Trustees. However, the expenditure incurred in this regard shall be within the limits as specified in Regulation 52(6) of the Mutual Funds Regulations. AMC(s)

[115] MFD/CIR/09/014/2000 dated January 5, 2000

shall place correspondence and reports submitted to SEBI before the Trustees.

6.6 Applicability of Insider Trading Regulations[116]

6.6.1 Securities and Exchange Board of India (Insider Trading) (Amendment) Regulations, 2002 shall be followed strictly by the trustee companies, asset management companies and their employees and directors.

[116] SEBI Cir MFD/CIR/05/432/2002 June 20, 2002

PART II -SCHEME GOVERNANCE

6.7 Minimum Number of investors[117]

6.7.1 Applicability for an open-ended scheme

6.7.1.1 The Scheme/Plan shall have:

a. a minimum of 20 investors and
b. no single investor shall account for more than 25% of the corpus of the Scheme/Plan(s).

6.7.1.2 If either/both of such limit(s) is breached during the NFO of the Scheme, it shall be ensured that within a period of three months or the end of the succeeding calendar quarter from the close of the NFO of the Scheme, whichever is earlier, the Scheme complies with these two conditions.

6.7.1.3 In case the Scheme / Plan(s) does not have a minimum of 20 investors in the stipulated period, the provisions of Regulation[118] would become applicable automatically without any reference from SEBI and accordingly the Scheme / Plan(s) shall be wound up and the units would be redeemed at applicable NAV.

6.7.1.4 If there is a breach of the 25% limit by any investor over the quarter, a rebalancing period of one month would be allowed and thereafter the investor who is in breach of the rule shall be given 15 days notice to redeem his exposure over the 25 % limit. Failure on the part of the said investor to redeem his exposure over the 25 % limit within the aforesaid 15 days would lead to automatic redemption by the Mutual Fund on the applicable

[117] SEBI Circular No. SEBI/IMD/CIR No.10/22701/03 dated December 12, 2003, SEBI Circular No. SEBI/IMD/CIR No.1/42529/05 dated June 14, 2005.

[118] Reg.39(2)(c) of the SEBI (MF) Regulations, 1996

Net Asset Value on the 15th day of the notice period.

6.7.1.5 The two conditions mentioned above shall also be complied within each subsequent calendar quarter thereafter, on an average basis, as specified by SEBI.

6.7.1.6 The Fund shall adhere to the requirements prescribed by SEBI from time to time in this regard.

6.7.2 Applicability for a Close ended scheme/Interval scheme

6.7.2.1 The Scheme(s) and individual Plan(s) under the Scheme(s) shall have:

a. A minimum of 20 investors and

b. No single investor shall account for more than 25% of the corpus of the Scheme(s)/Plan(s).

6.7.2.2 These conditions will be complied with immediately after the close of the NFO itself i.e. at the time of allotment.

6.7.2.3 In case of non-fulfillment with the condition of minimum 20 investors, the Scheme(s)/Plan(s) shall be wound up in accordance with Regulation[119] automatically without any reference from SEBI.

6.7.2.4 In case of non-fulfillment with the condition of 25% holding by a single investor on the date of allotment, the application to the extent of exposure in excess of the stipulated 25% limit would be liable to be rejected and the allotment would be effective only to the extent of 25% of the corpus collected. Consequently, such

[119] Reg. 39 (2) (c) of SEBI (MF) Regulations, 1996

exposure over 25% limits will lead to refund within 6 weeks of the date of closure of the New Fund Offer.

6.7.2.5 For interval scheme the aforesaid provision will be applicable at the end of NFO and specified transaction period.

6.7.2.6 Requisite disclosure in this regard shall be made in the SID.

6.7.3 Determination of breach:

6.7.3.1 The average shall be calculated, at the end of each quarter, on the basis of number of investors at the end of the business hours of the scheme on a daily basis.

6.7.3.2 To determine breach of 25% holding limit by an investor, net assets under the scheme shall be calculated daily and the daily holding limit shall be determined accordingly. At the end of the quarter, average daily holding by each investor shall be calculated and any breach of the 25% holding limit will be accordingly determined.

6.7.4 Applicability

6.7.4.1 These Guidelines are applicable at the Portfolio level.

6.7.4.2 These Guidelines are not applicable to Exchange Traded Funds (ETFs).

6.7.5 Redemptions

6.7.5.1 Redemptions effected pursuant to these Guidelines shall be completed within 10 days from the day of winding up of the scheme(s) and/or plan(s).

6.7.6 Reporting to the Board

6.7.6.1 Compliance with these Guidelines shall be reported in Compliance Test Reports (CTRs) and Half Yearly Trustee Reports.

6.8 Scheme Performance Review

6.8.1 AMCs and Trustees shall review the performance of their schemes on periodic basis[120]. Such review can take place by comparing the performance of the schemes with benchmark indices as well as in light of the performance of the entire Mutual Funds industry by relying on data published from time to time by independent research agencies and financial newspapers and journals. Corrective action if required may be taken in case of unsatisfactory performance. Its compliance should be reported in the bimonthly CTRs of AMCs and half-yearly reports of the Trustees to SEBI (while reporting compliance of Regulation 25(2) on exercise of due diligence in investment decisions).

[120] SEBI Circular No. dated July 27, 2000 & SEBI Cir 16/400/02 dated March 26, 2002.

PART III -SYSTEMS AUDIT OF MUTUAL FUNDS[121]

6.9 Mutual funds shall have a systems audit conducted by an independent CISA/CISM qualified or equivalent auditor.

6.10 The systems audit should be comprehensive encompassing audit of systems and processes inter alia related to examination of integration of front office system with the back office system, fund accounting system for calculation of net asset values, financial accounting and reporting system for the AMC, Unit-holder administration and servicing systems for customer service, funds flow process, system processes for meeting regulatory requirements, prudential investment limits and access rights to systems interface.

6.11 Mutual Funds/ AMCs should get the above systems audit conducted once in two years.

6.12 The Systems Audit Report and compliance status should be placed before the Trustees of the mutual fund.

6.13 The systems audit report/findings alongwith trustee comments should be communicated to SEBI.

6.14 For the financial years April 2008 – March 2010, the systems audit should be completed by September 30, 2010.

[121] SEBI Circular No SEBI/IMD/CIR No. 9/176988/2009 dated September 16, 2009

CHAPTER 7

SECONDARY MARKET ISSUES

7.1 Non Applicability of Listing Deposit[122]

7.1.1 The requirement of collecting listing deposit as specified under Circular Letter No. SE/12936 dated April 6, 1992 shall not be applicable to Mutual Fund schemes seeking listing on the Stock Exchanges.

7.2 Payment of Margins[123]

7.2.1 The applicable margins shall be paid as per the guidelines issued by SEBI and as directed by stock exchanges from time to time.

7.3 Unique Client Codes[124]

7.3.1 Mutual Funds are not permitted to operate in the securities market without furnishing a valid Unique Client Code (UCC).[125] Mutual Funds are required to obtain UCC from the Bombay Stock Exchange Ltd. (BSE) or The National Stock Exchange Ltd. (NSE) whenever a new scheme(s) or plan(s) (wherever the portfolio of the

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[122] SEBI Circular No. SMD-II(N)/2113/94 dated April 12, 1994. Further, in this regard, circulars issued by SEBI from time to time may be considered.

[123] SEBI Circular No. MFD/CIR/9/230/2001 dated August 14, 2001

[124] SEBI Circular No. MFD/CIR No.8/290/01 dated July 30, 2001, SEBI Circular No. SEBI/SMD/SE/11/2003/31/03 dated March 31, 2003, SEBI Circular No. SEBI/IMD/CIR No.01/1756/04 dated January 27, 2004, SEBI Circular No. MRD/DoP/SE/Cir-35/2004 dated October 26, 2004, SEBI Circular No. SEBI/IMD/CIR No.2/46603/05 dated August 10, 2005. Further, in this regard, circulars issued by SEBI from time to time may be considered

[125] SEBI Circular No. SMDRP/Policy/Cir-39/2001 dated July 18, 2001.

plans is different) is launched[126]. Such UCC should be obtained before commencing the trading on behalf of the scheme(s)/plan(s). At the time of entering an order, the UCC pertaining to the parent Mutual Fund shall be provided and the allocation to individual schemes shall be done in the post closing session.[127] The UCC can be shared with the unit holders to facilitate tax benefits linked to payment of Securities Transaction Tax (STT).

7.4 Trading in Exchange Traded Derivatives Contracts[128]

7.4.1 For trading in Exchange Traded Derivatives Contracts, following should be observed:

7.4.1.1. Mutual Fund schemes can participate in derivatives market as per the guidelines issued by SEBI in this regard from time to time.[129]

7.4.1.2 The Mutual Funds shall be treated at par with a registered FII in respect of position limits in index futures, index options, stock options and stock futures contracts. The Mutual Funds will be considered as trading members like registered FIIs and the schemes of Mutual Funds will be treated as clients like sub-accounts of FIIs.

7.4.1.3 Appropriate disclosures shall be made in the offer document regarding the extent and manner of participation of the schemes of the Mutual Funds in derivatives and the risk factors, which should be explained by suitable numerical examples.

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[126] SEBI Circular No. SEBI/IMD/CIR No.01/1756/04 dated January 27, 2004.

[127] SEBI Circular No. MRD/DoP/SE/Cir-35/2004 dated October 26, 2004.

[128] SEBI Circular No. DNPD/Cir-29/2005 dated September 14, 2005; SEBI Circular No. DNPD/Cir-30/2006 dated January 20, 2006, SEBI Circular No. SEBI/DNPD/Cir-31/2006 dated September 22, 2006.

[129] SEBI Circular No. DNPD/Cir-29/2005 dated September 14, 2005.

7.4.1.4 The participation of existing schemes of the Mutual Funds in the derivatives market shall be subject to the following conditions:

a. The extent and the manner of the proposed participation in derivatives shall be disclosed to the unit holders.

b. The risks associated with such participation shall be disclosed and explained by suitable numerical examples.

c. Positive consent shall be obtained from majority of the unit holders.

d. An exit option shall be provided to the dissenting unit holders. Such option shall be kept open for a period of one month prior to the scheme commencing trading in derivatives.

e. No exit load shall be charged to the unit holders exercising such exit options.

7.4.1.5 Positions limits as specified by SEBI for Mutual Funds and its schemes from time to time shall be applicable[130].

7.5 Trading in Interest Rate Derivatives[131]

7.5.1 Mutual Fund schemes are permitted to undertake transactions in Forward Rate Agreements and Interest Rate Swaps with banks, PDs & FIs as per applicable RBI Guidelines[132], mutual funds can also trade in interest rate derivatives through the Stock Exchanges subject to requisite disclosures in the SID[133].

130 Please refer SEBI Circular No DNPD/Cir – 29/2005 Dated September 14, 2005 for position limits and subsequent circulars issued in this regard from time to time.

131 SEBI Circular No. SEBI/MFD/CIR No.03/158/03 dated June 10, 2003.

132 RBI Circular dated November 1, 1999.

133 SEBI Circular No. SEBI/MFD/CIR No.03/158/03 dated June 10, 2003.

7.6 Transactions of mutual funds in Government Securities in dematerialised form[134]

7.6.1 According to Regulation[135], the Mutual Funds having an aggregate of securities worth Rs. 10 crore or more are required to settle their transactions only through dematerialised securities. All Mutual Funds should enter into transactions relating to government securities only in dematerialised form.

[134] SEBI Circular No. MFD/CIR/05/432/2002 dated June 20, 2002
[135] Regulation 44(1A) of SEBI (MF) Regulations, 1996

CHAPTER 8

NET ASSET VALUE[136]

8.1 Disclosure of Net Asset Value[137]

8.1.1 The NAV of schemes shall be published on a daily basis by the Mutual Funds at least in two daily newspapers[138].

8.1.2 NAV and sale/repurchase price of all Mutual Fund schemes except for Fund of Fund Schemes shall be updated on AMFI's website and the Mutual Funds' websites by 9 p.m. of the same day[139].

8.1.3 Fund of Fund Schemes shall have an extended time up to 10 a.m. the following business day in this regard[140] and the NAVs shall be published in newspapers with an asterisk to indicate the one day time lag/or the actual time lag.

8.1.4 Delay beyond 10 a.m. of the following business day in case of Fund of Fund schemes and 9 p.m. on the same day for all other schemes shall be explained in writing to AMFI and the Board and shall also be reported in the CTR(s)[141] in terms of number of days of non adherence of time limit for uploading NAV on AMFI's website and the reasons for the same. Corrective

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[136] Regulation 48(1) of SEBI (Mutual Funds) Regulations, 1996

[137] SEBI Circular No. IIMARP/MF/CIR/07/844/97 dated May 5, 1997, SEBI Circular No. MFD/CIR No.11/171/01 dated February 9, 2001, SEBI Circular No. MFD/CIR/13/087/2001 dated March 28, 2001; SEBI Circular No. SEBI/IMD/CIR No.5/63714/06 dated March 29, 2006, SEBI Circular No. SEBI/IMD/CIR No.5/96576/2007 dated June 25, 2007, SEBI Cir No. SEBI/IMD/Cir No.12/147132/08 dated December 11,2008

[138] Regulation 48(2) of SEBI (Mutual Funds) Regulations, 1996

[139] SEBI Circular No. SEBI/IMD/CIR No.5/63714/06 dated March 29, 2006.

[140] SEBI Circular No. SEBI/IMD/CIR No.5/96576/2007 dated June 25, 2007.

[141] For format of CTR, please refer to chapter on formats

steps taken by AMC to reduce the number of occurrences shall also be disclosed[142].

8.1.5 In case the NAVs are not available before the commencement of business hours on the following day due to any reason, Mutual Funds shall issue a press release giving reasons for the delay and explain when they would be able to publish the NAVs[143].

8.2 Rounding off NAVs[144]

8.2.1 To ensure uniformity, Mutual Funds shall round off NAV up to four decimal places for index funds and all types of debt & liquid/money market schemes.

8.2.2 For all equity oriented and balanced fund schemes, Mutual Funds shall round off NAVs up to two decimal places. However, Mutual Funds can round off the NAVs up to more than two decimal places in case of equity oriented and balanced fund schemes also, if they so desire[145]. Relevant disclosure in this regard shall be made in the SID/SAI[146].

8.3 Uniform Cut off Timings for applicability of Net Asset Value of Mutual Fund scheme(s) and/ or plan(s)[147]

8.3.1 Mutual Funds should follow the Guidelines enumerated below with respect to uniform Cut -off Timings:

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142 SEBI Circular No. SEBI/IMD/CIR No.5/63714/06 dated March 29, 2006.

143 SEBI Circular No. SEBI/IMD/CIR No.5/63714/06 dated March 29, 2006.

144 SEBI Circular No. MFD/CIR/08/514/2002 dated July 22, 2002, SEBI Circular No. MFD/CIR/11/16159/2002 dated August 22, 2002.

145 SEBI Circular No. MFD/CIR/11/16159/2002 dated August 22, 2002.

146 SEBI Circular No. MFD/CIR/08/514/2002 dated July 22, 2002.

147 SEBI Circular No. SEBI/IMD/CIR No. 11/78450/06 dated October 11, 2006.

8.3.2 Definitions:

8.3.2.1 In these Guidelines, unless the context otherwise requires:

a. ‘Cut-off Timing’, in relation to an investor making an application to a Mutual Fund for purchase or sale of units, shall mean, the outer limit of timing within a particular day which is relevant for determination of the NAV applicable for his transaction;

b. ‘International scheme’ means a Mutual Fund scheme having substantial investments in foreign securities valued as per time zones other than Indian Standard Time zone;

c. ‘Liquid fund schemes and plans’ shall mean the schemes and plans of a Mutual Fund as specified in the guidelines[148] issued by SEBI in this regard[149].

8.3.3 Applicability

8.3.3.1 The Guidelines on Cut off Timings for applicability of Net Asset Value of Mutual Fund scheme(s) and/ or plan(s) shall be applicable to all schemes and plans of Mutual Funds except:

a. International schemes and
b. Transactions in Mutual Fund units undertaken on a recognized Stock Exchange.

8.3.4 Fixation of uniform Cut-off Timings

8.3.4.1 Mutual Funds shall reckon the Cut-off Timings for their schemes and plans in compliance with these Guidelines and the same shall be uniformly implemented for all investors.

[148] Please refer to the Section on liquid schemes
[149] SEBI Circular No.SEBI/IMD/CIR No.13/150975/09 dated January 19, 2009

8.3.4.2 Mutual Funds shall ensure that each payment instrument for subscription or purchase of units is deposited in a bank expeditiously by utilization of the appropriate banking facility, so as to comply with the requirement in Clause 8.3.4.1 above.

8.3.4.3 AMCs shall compensate any loss occasioned to any investor or to the scheme and/or plan on account of non compliance with Clause 8.3.4.2 above.

8.3.5 Cut-off Timings for liquid fund schemes and plans

8.3.5.1 The following Cut-off Timings shall be observed by the Mutual Funds in respect of purchase of units in liquid fund schemes and plans and the following NAVs shall be applied for such purchase:

a. Where the application is received up to 12.00 noon on a given day and funds are available for utilization on the same day – closing NAV of the day immediately preceding the day on which the application is received;

b. Where the application is received after 12.00 noon on a given day and funds are available for utilization on the same day – closing NAV of the day immediately preceding the next business day; and

c. Irrespective of the time of receipt of application, where funds are not available for utilization on the day of the application –closing NAV of the day immediately preceding the day on which the funds are available for utilization.

8.3.5.2 The following Cut-off Timings shall be observed by Mutual Funds with respect to repurchase of units in liquid fund schemes and plans and the following NAVs shall be applied for such repurchase:

a. Where the application is received up to 3.00 pm – the closing NAV of day immediately preceding the next business day; and

b. Where the application is received after 3.00 pm – the closing NAV of the next business day.

8.3.5.3 Mutual Funds shall calculate NAV for each calendar day for their liquid fund schemes and plans.

a. Explanation: "Business Day" does not include a day on which the Money Markets are closed or otherwise not accessible.

8.3.6 Cut-off Timings for schemes and plans other than liquid fund schemes and plans

8.3.6.1 A Mutual Fund shall reckon only prospective NAV, in accordance with this clause, in respect of all their schemes and plans i.e. for other than liquid fund schemes and plans

8.3.6.2 The following Cut-off Timings shall be observed by Mutual Funds in respect of purchase of units in other schemes and plans and following NAVs shall be applied for such purchase:

a. Where the application is received up to 3.00 pm with a local cheque or demand draft payable at par at the place where it is received – closing NAV of the day on which the application is received;

b. Where the application is received after 3.00 pm with a local cheque or demand draft payable at par at the place where it is received – closing NAV of the next business day; and

c. Where the application is received with an outstation cheque or demand draft which is not payable on par at the place where it is received – closing NAV of day on which the cheque or demand draft is credited.

8.3.6.2.In respect of purchase of units in Income/ Debt oriented schemes (other than liquid fund schemes and plans) with amount equal to or more than Rs. 1 crore, irrespective of the time of receipt of application, the closing NAV of the day on which the funds are available for utilization shall be applicable[150].

8.3.6.3 The following Cut-off Timings shall be observed by Mutual Funds in respect of repurchase of units in its other schemes and their plans, and the following NAVs shall be applied for such repurchase:

a. Where the application is received up to 3.00 pm – closing NAV of the day on which the application is received; and

b. An application received after 3.00 pm – closing NAV of the next business day.

8.3.7 Switch and Sweep Transactions

8.3.7.1 Paragraphs 8.3.5 and 8.3.6 shall apply to 'switch in' transactions as if they were purchase transactions and to 'switch out' transactions as if they were repurchase transactions.

8.3.7.2 Paragraphs 8.3.5 and 8.3.6 shall apply to 'sweep' transactions as if they were purchase transactions and to 'reverse sweep' transactions as if they were repurchase transactions.

8.3.7.3 In case of 'switch' transactions from one scheme to another, the allocation shall be in line with redemption payouts.

8.3.8. Time Stamping

8.3.8.1 Application from investors shall be received by Mutual Funds only at official points of acceptance, addresses of which shall be disclosed in the SID and on Mutual Funds' websites.

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[150] SEBI Circular No SEBI/IMD/CIR No. 11/142521/08 dated October 24, 2008

8.3.8.2 Cut off timings as prescribed under Paragraphs 8.3.5 and 8.3.6 shall apply with reference to the point of time at which the applications are received at such official points of acceptance.

8.3.8.3 Time stamping machines at all official points of acceptance shall be in compliance with the requirements mentioned in Section 8.4.

8.3.9 Compliance Reporting

8.3.9.1 Status of compliance with these Guidelines shall be reported to the Board in the CTR(s)[151] of the AMC(s) and the Half Yearly Trustee Reports[152].

8.3.9.2 The Half Yearly Trustee Reports shall contain a declaration on whether the Trustees are satisfied with the systems and procedures of the Mutual Fund designed for the purpose of compliance with these Guidelines.

8.3.9.3 Further, the substance of these Guidelines shall be disclosed to investors in the SID or in any addendum thereto.

8.4 Requirements with respect to time stamping machines [pursuant to Clause 8(3)]

8.4.1 For every machine, running serial number shall be stamped from the first number to the last number as per its capacity before repetition of the cycle.

8.4.2 Every application for purchase shall be stamped on the face and the corresponding payment instrument shall be stamped on the back indicating the date and time of receipt and running serial number. The

[151] for CTR format, please refer to the chapter on formats

[152] For Trustee report, please refer to the chapter on formats

application and the payment instrument shall contain the same serial number.

8.4.3 Every application for redemption shall be stamped on the face thereof and on the investor's acknowledgment copy (or twice on the application if no acknowledgment is issued) indicating the date and time of receipt and running serial number.

8.4.4 Different applications shall not be bunched together with the same serial number.

8.4.5 Blank papers shall not be time stamped. Genuine errors, if any, shall be recorded with reasons and the corresponding applications requests shall also be preserved.

8.4.6 The time stamping machine shall have a tamper proof seal and the ability to open the seal for maintenance or repairs must be limited to vendors or nominated persons of the mutual fund, to be entered in a proper record.

8.4.7 Breakage of seal and/or breakdown of the time stamping process shall be duly recorded and reported to the Trustees.

8.4.8 Every effort should be made to ensure uninterrupted functioning of the time stamping machine. In case of breakdown, the Mutual Funds shall take prompt action to rectify the situation. During the breakdown period, Mutual Funds shall adopt an alternative time stamping method that has already been approved by the Board of the AMC and the Trustee(s). An audit trail shall be available to check and ensure the accuracy of the time stamping process during the said period.

8.4.9 Any alternate mode of application that does not have any physical or electronic trail shall be converted into a physical piece of information and time stamped in accordance with these Guidelines.

8.4.10 Mutual Funds shall maintain and preserve all applications / requests, duly time stamped as aforesaid, at least for a period of eight years[153] to be able to produce them as and when required by the Board or auditors appointed by the Board.

8.5 Uniformity in calculation of sale and repurchase price[154]

8.5.1 The following method is being prescribed

8.5.1.1 To streamline the calculation of sale and repurchase price of mutual fund units[155],

8.5.1.2 To avoid variation in the amounts payable to investors and/or number of units allotted to them, and

8.5.1.3 To make the calculations more comprehensible to the investors.

8.5.2 Exit loads shall be charged as a percentage of the NAV i.e. applicable load as a percentage of NAV will be subtracted from the NAV to calculate the repurchase price.

8.5.3 The formula for the same is as follows:

8.5.3.1 Sale Price = Applicable NAV

8.5.3.2 Repurchase Price = Applicable NAV *(1 – Exit Load, if any)

[153] Regulation 50(2) of SEBI (Mutual Funds) Regulations, 1996

[154] SEBI Circular No. MFD/CIR/08/514/2002 dated July 22, 2002 & SEBI Circular No. SEBI/IMD/CIR No. 4/ 168230/09 dated June 30, 2009

[155] Regulation 49(3) of the SEBI (Mutual Funds) Regulations, 1996.

CHAPTER 9

VALUATION

9.1Definitions[156]

9.1.1Non Traded Securities[157]

9.1.1.1When a security (other than Government Securities) is not traded on any Stock Exchange for a period of thirty days prior to the valuation date, the scrip shall be treated as a non traded security.

9.1.2 Thinly Traded Securities

9.1.2.1 Thinly traded equity/ equity related securities:[158]

a. When trading in an equity and/or equity related security (such as convertible debentures, equity warrants etc.) in a month is both less than Rs. 5 lacs and the total volume is less than 50,000 shares, the security shall be considered as thinly traded security and valued accordingly.

b. In order to determine whether a security is thinly traded or not, the volumes traded in all recognized Stock Exchanges in India may be taken into account.

c. For example, if the volume of trade is 1, 00,000 and value is Rs. 4,00,000, the shares do not qualify as thinly traded. Also if the volume traded is 40,000, but the value of trades is Rs. 6, 00,000, the shares do not qualify as thinly traded.

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[156] SEBI Circular No. MFD/CIR/8/92/2000 dated September 18, 2000, SEBI Circular No. MFD/CIR/14/088/2001 dated March 28, 2001 and SEBI Circular No. MFD/CIR/14/442/2002 dated February 20, 2002.

[157] SEBI Circular No. MFD/CIR/8/92/2000 dated September 18, 2000.

[158] SEBI Circular No. MFD/CIR/14/088/2001 dated March 28, 2001.

d. Where a Stock Exchange identifies the thinly traded securities by applying the above parameters for the preceding calendar month and publishes or provides the required information along with the daily quotations, the same can be used by the Mutual Funds.

e. If the shares are not listed on the Stock Exchanges which provide such information, then Mutual Funds shall make their own analysis in line with the above criteria to check whether such securities are thinly traded or not and then value them accordingly.

9.1.3 Thinly traded Debt Securities[159]

9.1.3.1 A debt security (other than Government Securities) shall be considered as a thinly traded security if, on the valuation date, there are no individual trades in that security in marketable lots (currently applicable) on the principal Stock Exchange or any other Stock Exchange.

9.2. Valuation of Securities

9.2.1 Traded Securities:[160]

9.2.1.1 When a security (other than debt securities) is not traded on any Stock Exchange on a particular valuation day, the value at which it was traded on the selected Stock Exchange, as the case may be, on the earliest previous day may be used provided such date is not more than thirty days prior to valuation date.

9.2.1.2 When a debt security (other than Government Securities) is not traded on any Stock Exchange on any particular valuation day, the value at

[159] SEBI Circular No. MFD/CIR/14/442/2002 dated February 20, 2002.

[160] SEBI Circular No. MFD/CIR/14/442/2002 dated February 20, 2002.

which it was traded on the principal Stock Exchange or any other Stock Exchange, as the case may be, on the earliest previous day may be used provided such date is not more than fifteen days prior to valuation date. When a debt security (other than Government Securities) is purchased by way of private placement, the value at which it was bought may be used for a period of fifteen days beginning from the date of purchase.

9.2.2 Non-Traded / and/or Thinly Traded Securities:[161]

9.2.2.1 AMCs shall value non traded and/or thinly traded securities "in good faith" based on the Valuation norms prescribed below:

9.2.3 Non-traded/ and/or thinly traded equity securities:

9.2.3.1 Based on the latest available Balance Sheet, Net Worth shall be calculated as follows:

a. Net Worth per share = [Share Capital+ Reserves (excluding Revaluation Reserves) – Miscellaneous expenditure and Debit Balance in Profit and Loss Account] / Number of Paid up Shares.
b. Average Capitalization rate (P/E ratio) for the industry based upon either BSE or NSE data (which shall be followed consistently and changes, if any, noted with proper justification thereof) shall be taken and discounted by 75 per cent i.e. only 25 per cent. Of the industry average P/E shall be taken as Capitalization rate (P/E ratio). Earnings per share (EPS) of the latest audited annual accounts shall be considered for this purpose.
c. The value as per the Net Worth value per share and the capital earning value calculated as above shall be averaged and further discounted by 10 per cent. for illiquidity so as to arrive at the fair value per share.

[161] SEBI Circular No. MFD/CIR/8/92/2000 dated September 18, 2000.

d. In case the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalised earning.

e. In case where the latest Balance Sheet of the company is not available within nine months from the close of the year, unless the accounting year is changed, the shares of such companies shall be valued at zero.

f. In case an individual security accounts for more than 5 per cent. of the total assets of the scheme, an independent valuer shall be appointed for the valuation of the said security. To determine if a security accounts for more than 5 per cent. of the total assets of the scheme, it shall be valued by the procedure above and the proportion which it bears to the total net assets of the scheme to which it belongs will be compared on the date of valuation[162].

g. In case trading in an equity security is suspended up to thirty days, then the last traded price shall be considered for valuation of that security. If an equity security is suspended for more than thirty days, then the AMC(s) or Trustees shall decide the valuation norms to be followed and such norms shall be documented and recorded.

9.2.4 <u>Non traded/thinly Traded Debt security</u>

9.2.4.1 A thinly traded debt security as defined above shall be valued as per the norms for non traded debt security.

a. <u>*Non Traded/ Thinly Traded Debt Securities of up to 182 Days to Maturity:*</u>[163]

1. As the Money Market securities[164] are valued on the basis of amortization (cost + accrued interest till the beginning of the day

[162] SEBI Circular No. MFD/CIR/14/088/2001 dated March 28, 2001
[163] SEBI Circular No. MFD/CIR/14/088/2001 dated March 28, 2001.

[164] Refer Clause 2(ii)(c) of Eighth Schedule of SEBI (Mutual Fund) Regulations, 1996 for valuation of money market instruments

+ the difference between the redemption value and the cost spread uniformly over the remaining maturity period of the instruments) a similar process should be adopted for non-traded debt securities with residual maturity of up to 182 days, in the absence of any other standard benchmarks in the market.

2. Debt securities purchased with residual maturity of up to 182 days are to be valued at cost (including accrued interest till the beginning of the day) plus the difference between the redemption value (inclusive of interest) and cost spread uniformly over the remaining maturity period of the instrument. In case of a debt security with maturity greater than 182 days at the time of purchase, the last valuation price plus accrued interest should be used instead of purchase cost. All other non traded Non Government debt instruments shall be valued using the method suggested below in (b) hereof.

b. *Non Traded/ Thinly Traded Debt Securities of over 182 Days to Maturity:*[165]

   1. For the purpose of valuation, all non-traded Debt Securities would be classified as "Investment grade" and "Non Investment grade" securities based on their credit ratings. Non investment grade securities would further be classified as "Performing" and "Non Performing" assets as below:

      i. All Non Government investment grade debt securities, classified as not traded, shall be valued on yield to maturity basis as described below.

[165] SEBI Circular No. MFD/CIR/8/92/2000 dated September 18, 2000.

ii. All Non Government non investment grade performing debt securities would be valued at a discount of 25% to the face value

iii. All Non Government non investment grade non performing debt securities would be valued based on the provisioning norms.

2. The approach in valuation of non traded debt securities is based on the concept of using spreads over the benchmark rate to arrive at the yields for pricing the non traded security.

3. The Yields for pricing the non traded debt security would be arrived at using the process as defined below.

Step 1: A Risk Free Benchmark Yield is built using the government securities as the base. Government securities are used as the benchmarks as they are traded regularly; free of credit risk; and traded across different maturity spectrums every week.

Step 2: A Matrix of spreads (based on the credit risk) are built for marking up the benchmark yields. The matrix is built based on traded corporate paper on the wholesale debt segment of an appropriate stock exchange and the primary market issuances. The matrix is restricted only to investment grade corporate paper.

Step 3: The yields as calculated above are Marked-up/Marked-down for ill-liquidity risk

Step 4: The Yields so arrived are used to price the portfolio

9.3. Methodology:

9.3.1 Construction of Risk Free Benchmark[166]

9.3.1.1 Using Government of India dated securities; the Benchmark shall be constructed as below:

[166] SEBI Circular No. MFD/CIR/14/442/2002 dated February 20, 2002.

a. Government of India dated securities will be grouped into various duration buckets such as.5-1 year, 1-2 years, 2-3 years, 4-5 years, 5-6 years and 6 years and the volume weighted yield would be computed for each bucket. These duration buckets may be changed to reflect the market value more closely by any agency suggested by AMFI giving benchmark yield/ matrix of spreads over benchmark yield.

b. The benchmark as calculated above will be set at least weekly, and in the event of any significant movement in prices of Government Securities on account of any event impacting interest rated on any day such as a change in the Reserve Bank of India (RBI) policies, the benchmark will be reset to relefect any change in the market conditions.

9.3.2 Building a Matrix of Spreads for Marking-up the Benchmark Yield[167]

9.3.2.1 Mark up for credit risk over the risk free benchmark YTM as calculated in 9.3.1 above, will be determined using the trades of corporate debentures/bonds of different ratings. All trades on appropriate stock exchange during the fortnight prior to the benchmark date will be used in building the corporate YTM and spread matrices. Initially these matrices will be built only for corporate securities of investment grade. The matrices are dynamic and the spreads will be computed every week. The matrix will be built for all duration buckets for which the benchmark GOI matrix is built to effectively link the corporate matrix with the GOI securities matrix. Accordingly:

a. All traded paper (with minimum traded value of Rs. 1 crore) will be classified by their ratings and grouped into 7 duration buckets; for

[167] SEBI Circular No. MFD/CIR/8/92/2000 dated September 18, 2000.

rated securities, the most conservative publicly available rating will be used;

b. For each rating category, average volume weighted yield will be obtained both from trades on the appropriate stock exchange and from the primary market issuances

c. Where there are no secondary trades on the appropriate stock exchange in a particular rating category and no primary market issuances during the fortnight under consideration, then trades on appropriate stock exchange during the 30 day period prior to the benchmark date will be considered for computing the average YTM for such rating category;

d. If the matrix cannot be populated using any or all of the above steps, then credit spreads from trades on appropriate stock exchange of the relevant rating category over the AAA trades will be used to populate the matrix;

e. In each rating category, all outliers will be removed for smoothening the YTM matrix;

f. Spreads will be obtained by deducting the YTM in each duration category from the respective YTM of the GOI securities;

g. In the event of lack of trades in the secondary market and the primary market the gaps in the matrix would be filled by extrapolation. If the spreads cannot be extrapolated for the reason of practicality, the gaps in the matrix will be filled by carrying the spreads from the last matrix.

h. Accordingly, all Mutual Funds shall provide transaction details of various types of debt securities like NCDs, Mibor linked floaters and CPs on daily basis in the prescribed format enclosed at **Annexure 3** to the agency recommended by AMFI. Submission of data would help in daily matrix generation, would improve uniformity and accuracy of valuation in the Mutual Funds industry[168].

9.3.3 Mark-up/Mark-down Yield

9.3.3.1 The Yields calculated would be marked-up/marked-down to account for the illiquidity risk, promoter background, finance company risk and the issuer class risk. As the level of illiquidity risk would be higher for non rated securities the marking process for rated and non rated securities would be differentiated as follows:

a. Adjustments for Securities rated by external rating agencies[169]

Category	**Discretionary mark up/mark down**	
	+	-
Rated instruments with duration upto 2 years	100 bps	50 bps
Rated instruments with duration over 2 years	75 bps	25 bps

1. The rationale for the above discount structure is to take cognizance of the differential interest rate risk of the securities. This structure will be reviewed periodically.

b. Adjustments for Internally Rated Securities[170]

1. To value an un-rated security, the fund manager shall assign an internal credit rating, which will be used for valuation. Since un-rated instruments tend to be more illiquid than rated

[168] SEBI Circular No. MFD/CIR.No 23 / 066 /2003 dated March 7,2003

[169] SEBI Circular No. MFD/CIR/14/442/2002 dated February 20, 2002.

[170] SEBI Circular No. MFD/CIR/14/442/2002 dated February 20, 2002.

securities, the yields would be marked up by adding discretionary discount as under:

Category	**Discretionary discount**
Unrated instruments with duration upto 2 years	Discretionary discount of upto +50 bps over and above mandatory discount of +50 bps
Unrated instruments with duration over 2 years	Discretionary discount of upto +50 bps over and above mandatory discount of +25 bps

2. The benchmark yield/ matrix of spreads over risk free benchmark yield obtained from any agency suggested by AMFI, must be applied for valuation of securities on the day of release of such bench mark yield/ matrix of spreads by the aforesaid agency.[171]

9.3.3.2 Chief Executive Officer (whatever his designation may be) of the AMC shall give prior approval to the use of discretionary mark up or down limit

9.4 Valuation of securities with Put/Call Options:[172]

9.4.1 The option embedded securities would be valued as follows:

9.4.1.1 *Securities with call option*

1. The securities with call option shall be valued at the lower of the value as obtained by valuing the security to final maturity and valuing the security to call option. In case there are multiple call options, the

[171] SEBI Circular No. MFD/CIR/14/442/2002 dated February 20, 2002.

[172] SEBI Circular No. MFD/CIR/8/92/2000 dated September 18, 2000.

lowest value obtained by valuing to the various call dates and valuing to the maturity date is to be taken as the value of the instrument.

9.4.1.2. Securities with Put option

1. The securities with put option shall be valued at the higher of the value as obtained by valuing the security to final maturity and valuing the security to put option. In case there are multiple put options, the highest value obtained by valuing to the various put dates and valuing to the maturity date is to be taken as the value of the instruments.

9.4.1.3 Securities with both Put and Call option on the same day

1. The securities with both Put and Call option on the same day would be deemed to mature on the Put/Call day and would be valued accordingly.

9.5 Valuation of Government Securities

9.5.1. Government securities will be valued at prices for government securities released by an agency suggested by AMFI to ensure uniformity in calculation of NAVs[173].

[173] SEBI Circular No. MFD/CIR/14/442/2002 dated February 20, 2002.

9.6. Illiquid Securities[174]

9.6.1 Aggregate value of "illiquid securities" under a scheme, which are defined as non-traded, thinly traded and unlisted equity shares, shall not exceed 15 per cent of the total assets of the scheme and any illiquid securities held above 15 per cent. of the total assets shall be assigned zero value.

9.6.2 All Mutual Funds shall disclose as on March 31 and September 30 the scheme wise total illiquid securities in value and percentage of the net assets while disclosing Half Yearly Portfolios to the unit holders. In the list of investments, an asterisk mark shall be given against all such investments which are recognised as illiquid securities.

9.6.3 Mutual Funds shall not be allowed to transfer illiquid securities among their schemes.

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[174] SEBI Circular No. MFD/CIR/8/92/2000 dated September 18, 2000.

1. Provided that in case any scheme has illiquid securities in excess of 15% of total assets as on September 30, 2000 then such a scheme shall within a period of two years bring down the ratio of illiquid securities within the prescribed limit of 15 per cent. in the following time frame:
   a. All the illiquid securities above 20 per cent. of total assets of the scheme shall be assigned zero value on September 30, 2001.
   b. All the illiquid securities above 15 per cent. of total assets of the scheme shall be assigned zero value on September 30, 2002.
2. In respect of closed ended funds, for the purposes of valuation of illiquid securities, the limits of 15 per cent. and 20 per cent. applicable to open ended funds should be increased to 20 per cent. and 25 per cent. respectively.
3. Where a scheme has illiquid securities as at September 30, 2001 not exceeding 15% in the case of an open-ended fund and 20% in the case of closed fund, the concessions of giving time period for reducing the illiquid security to the prescribed limits would not be applicable and at all time the excess over 15% or 20% shall be assigned nil value

9.7 Guidelines for Identification and Provisioning for Non Performing Assets (Debt Securities)[175]

9.7.1 Definition of a Non Performing Asset (NPA)

9.7.1.1 An 'asset' shall be classified as NPA if the interest and/or principal amount have not been received or remained outstanding for one quarter from the day such income and/or installment was due.

9.7.2 Effective date for classification and provisioning of NPAs

9.7.2.1 The definition of NPA may be applied after a quarter past due date of the interest. For e.g. if the due date for interest is 30.06.2000, it will be classified as NPA from 01.10.2000.

9.7.3 Treatment of income accrued on the NPA and further accruals

9.7.3.1 After the expiry of the 1st quarter from the date the income has fallen due, there will be no further interest accrual on the asset i.e. if the due date for interest falls on 30.06.2000 and if the interest is not received, accrual will continue till 30.09.2000 after which there will be no further accrual of income. In short, taking the above example, from the beginning of the 2nd quarter there will be no further accrual on income.

9.7.3.2 On classification of the asset as NPA from a quarter past due date of interest, all interest accrued and recognized in the books of accounts of the Mutual Fund till the date shall be provided for. For e.g. if interest income falls due on 30.06.2000, accrual of interest will continue till 30.09.2000 even if the income as on 30.06.2000 has not been received. Further, no accrual will take place from 01.10.2000 onwards. Full provision will be made for interest accrued and outstanding as on 30.06.2000.

[175] SEBI Circular No. MFD/CIR/8/92/2000 dated September 18, 2000.

9.7.4 Provision for NPAs – Debt Securities

9.7.4.1 Both secured and unsecured investments, once they are recognized as NPAs, call for provisioning in the same manner and where these are related to close ended schemes, the phasing would be such that to ensure full provisioning prior to the closure of the scheme or the scheduled phasing which ever is earlier.

9.7.4.2 The value of the asset shall be provided in the following manner or earlier at the discretion of the Mutual Fund. Mutual Funds will not have discretion to extend the period of provisioning. The provisioning against the principal amount or installments shall be made at the following rates irrespective of whether the principal is due for repayment or not.

a. 10 percent of the book value of the asset shall be provided for after 6 months past due date of interest i.e. 3 months form the date of classification of the asset as NPA.

b. 20 percent of the book value of the asset should be provided for after 9 months past due date of interest i.e. 6 months from the date of classification of the asset as NPA.

c. Another 20 percent of the book value of the assets shall be provided for after 12 months past due date of interest i.e. 9 months from the date of classification of the asset as NPA.

d. Another 25 percent of the book value of the assets shall be provided for after 15 months past due date of interest i.e. 12 months from the date of classification of the asset as NPA.

e. The balance 25 percent of the book value of the asset shall be provided for after 18 months past due date of the interest i.e. 15 months from the date of classification of the assets as NPA.

9.7.4.3 Book value for the purpose of provisioning for NPAs shall be taken as a value determined as per the prescribed valuation method.

9.7.4.4. This can be explained by an illustration:

a. Let us consider that interest income is due on a half yearly basis and the due date falls on 30.06.2000 and the interest is not received till 1st quarter after due date i.e. 30.09.2000. The provisioning will be done in the following phased manner:

10% provision	01.01.2001	6 months past due date of interest i.e. 3 months from the date of classification of asset as NPA (01.10.2000)
20% provision	01.04.2001	
20% provision	01.07.2001	
25% provision	01.10.2001	
25% provision	01.01.2002	

b. Thus, one and half years past the due date of income or one year and three months from the date of classification of the 'asset' as an NPA, the 'asset' will be fully provided for. If any installment is fallen due, during the period of interest default, the amount of provision shall be the installment amount or above provision amount, whichever is higher.

9.7.5 Reclassification of assets

9.7.5.1 Upon reclassification of assets as 'performing assets':

a. In case a company has fully cleared all the arrears of interest, the interest provisions can be written back in full.

b. The asset will be reclassified as performing on clearance of all interest arrears and if the debt is regularly serviced over the next two quarters.

c. In case the company has fully cleared all the arrears of interest, the interest not credited on accrual basis shall be credited at the time of receipt.

d. The provision made for the principal amount can be written back in the following manner

1. 100% of the asset provided for in the books will be written back at the end of the 2nd quarter where the provision of principal was made due to the interest defaults only.
2. 50% of the asset provided for in the books will be written back at the end of the 2nd quarter and 25% after every subsequent quarter where both installments and interest payment were in default earlier.

i. *Explanation:* The words "2nd quarter" wherever appear, shall mean 2nd calendar quarter.[176]

e. An asset is reclassified as 'standard asset' only when both, the overdue interest and overdue installments are paid in full and there is satisfactory performance for a subsequent period of 6 months.

9.7.6 Receipt of past dues:

9.7.6.1 When the Mutual Fund has received income/ principal amount after their classifications as NPAs:

a. For the next 2 quarters, income shall be recognized on cash basis and thereafter on accrual basis. The asset will be continued to be classified as NPA for these two quarters.

b. During this period of two quarters although the asset is classified as NPA no provision needs to be made for the principal if the same is not due and outstanding.

c. If part payment is received towards principal, the asset continues to be classified as NPA and provisions are continued as per the norms set at 9.7.4 above Any excess provision will be written back.

9.7.7 Classification of Deep Discount Bonds as NPAs

9.7.7.1 Investments in Deep Discount Bonds can be classified as NPAs, if any two of the following conditions are satisfied:

[176] SEBI Circular No. MFD/CIR/14/088/2001 dated March 28, 2001.

a. If the rating of the Bond comes down to Grade 'BB' (or its equivalent) or below

b. If the company is defaulting in their commitments in respect of other assets, if available.

c. Full Net worth erosion.

9.7.7.2 Provision should be made as per the norms set at 9.7.4 above as soon as the asset is classified as NPA.

9.7.7.3 Full provision can be made if the rating comes down to Grade 'D' (or its equivalent).

9.7.8 Reschedulement of an asset

9.7.8.1 In case a company defaults in payment of either interest or principal amount and the Mutual Fund has accepted a rescheduling of the schedule of payments, then the following practice shall be adhered to:

a. In case it is a first reschedulement and only payment of interest is in default, the classification of the asset as NPA shall be continued and existing provisions shall not be written back. This practice shall be continued for two quarters of regular servicing of the debt. Thereafter, this be classified as 'performing asset' and the interest provided can be written back.

b. If the reschedulement is done due to default in interest and principal amount, the asset shall continue as NPA for a period of 4 quarters, even though the asset is continued to be serviced during these 4 quarters regularly. Thereafter, the asset can be classified as 'performing asset' and all the interest provided till such date shall be written back.

c. If the reschedulement is done for a second/ third time or thereafter, the characteristics of NPA should be continued for eight quarters of regular servicing of the debt. The provision shall be written back only after the asset is reclassified as 'performing asset'.

9.7.9 Disclosure in the Half Yearly Portfolio Reports

9.7.9.1 Mutual Funds shall make scrip wise disclosures of NPAs on Half Yearly basis along with the Half Yearly Portfolio Disclosure in the format prescribed[177].

9.7.9.2 The total amount of provisions made against the NPAs shall be disclosed in addition to the total quantum of NPAs and their proportion to the assets of the Mutual Fund scheme. In the list of investments and asterisk mark shall be given against such investments which are recognized as NPAs. Where the date of redemption of an investment has lapsed, the amount not redeemed shall be shown as 'Sundry Debtors' and not investment, provided, that where an investment is redeemable by installments, that will be shown as an investment until all installments have become overdue.

9.8 Investment in Unlisted Equity Shares[178]

9.8.1 To ensure uniformity in calculation of NAV the following guidelines are issued:

9.8.1.1 Methodology for Valuation **-** unlisted equity shares of a company shall be valued "in good faith" as below:

a. Based on the latest available audited balance sheet, Net Worth shall be calculated as the lower of item (1) and (2) below:

   1. Net Worth per share = [Share Capital + Free Reserves (excluding revaluation reserves) - Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses] / Number of Paid up Shares.

[177] For formats of Half yearly disclosure, please refer to the formats chapter

[178] SEBI Circular No. MFD/CIR/03/526/2002 dated May 9, 2002.

2. After taking into account the outstanding warrants and options, Net Worth per share shall again be calculated and shall be = [Share Capital + consideration on exercise of Option and/or Warrants received/receivable by the Company + Free Reserves (excluding Revaluation Reserves) - Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses] / Number of Paid up Shares plus Number of Shares that would be obtained on conversion and/or exercise of Outstanding Warrants and Options.
3. The lower of (1) and (2) above shall be used for calculation of Net Worth per share and for further calculation in (c) below.

b. Average capitalisation rate (P/E ratio) for the industry based upon either BSE or NSE data (which shall be followed consistently and changes, if any, noted with proper justification thereof) shall be taken and discounted by 75 per cent. i.e. only 25 per cent of the industry average P/E shall be taken as capitalisation rate (P/E ratio). Earnings per share (EPS) of the latest audited annual accounts will be considered for this purpose.

c. The value as per the Net Worth value per share and the capital earning value calculated as above shall be averaged and further discounted by 15 per cent for illiquidity so as to arrive at the fair value per share.

9.8.1.2 The above valuation methodology shall be subject to the following conditions:

a. All calculations shall be based on audited accounts.
b. If the latest Balance Sheet of the company is not available within nine months from the close of the year, unless the accounting year is changed, the shares of such companies shall be valued at zero.
c. If the Net Worth of the company is negative, the share would be marked down to zero.

d. In case the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalised earning.

e. In case an individual security accounts for more than 5 per cent of the total assets of the scheme, an independent valuer shall be appointed for the valuation of the said security. To determine if a security accounts for more than 5 per cent of the total assets of the scheme, it shall be valued in accordance with the procedure as mentioned above on the date of valuation.

9.8.2 At the discretion of the AMCs and with the approval of the Trustees, unlisted equity shares may be valued at a price lower than the value derived using the aforesaid methodology.

9.8.3 Due Diligence

9.8.3.1 Mutual Funds shall not make Investment in unlisted equity shares at a price higher than the price obtained by using the aforesaid methodology. However, this restriction is not applicable for investment made in the Initial Public Offers (IPOs) of the companies or firm allotment in public issues where all the regulatory requirements and formalities pertaining to public issues have been complied with by the companies and where the Mutual Funds are required to pay just before the date of public issue.

9.8.3.2 The Board of the AMC and Board of Trustees shall lay down the parameters for investing in unlisted equity shares. They shall pay specific attention as to whether due diligence was exercised while making such investments and shall review the performance of such investments in their periodical meetings[179].

9.8.4 Reporting of Compliance

[179] SEBI Circular No. MFD/CIR/6/73/2000 dated July 27, 2000.

9.8.4.1 Comments on compliance of these Guidelines shall be indicated by the AMCs and Trustees in their CTRs[180] and Half Yearly Reports[181] filed with the Board.

[180] For CTR format please refer to the chapter on formats
[181] For Half Yearly Reports, please refer to the chapter on formats

CHAPTER 10

LOADS, FEES AND EXPENSES

10.1 Limits on fees and expenses charged to schemes[182]

10.1.1 Mutual Funds may charge certain expenses to a scheme, as specified under Regulations.[183] Apart from the these expenses, any other expense as may be approved by SEBI under clause (xiii) of Sub Regulation 52(4) can also be charged to the Mutual Fund schemes. Other expenses directly attributable to a scheme may be charged with the approval of trustees within the overall limits as provided in the Regulation 52(6).[184]

10.1.2 The following expenses cannot be charged to the schemes of Mutual Funds:

10.1.2.1 Penalties and fines for infraction of laws.

10.1.2.2 Interest on delayed payment to the unit holders.

10.1.2.3 Legal, marketing, publication and other general expenses not attributable to any scheme(s).

10.1.2.4 Fund Accounting Fees.

10.1.2.5 Expenses on investment management/general management.

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[182] SEBI Circular No. IIMARP/MF/CIR/01/428/97 dated February 28, 1997, SEBI Circular No. IIMARP/MF/CIR/07/826/98 dated April 15, 1998, SEBI Circular No. MFD/CIR/9/120/2000 dated November 24, 2000.

[183] 52(4) of the Mutual Funds Regulations,1996

[184] SEBI Circular No. MFD/CIR/9/120/2000 dated November 24, 2000.

10.1.2.6 Expenses on general administration, corporate advertising and infrastructure costs.

10.1.2.7 Depreciation on fixed assets and software development expenses.

10.1.2.8 Such other costs as may be prohibited by the Board.

10.1.3 The expenditure and/or fee payable by Mutual Funds to the Depositories may either be capitalized or included as part of recurring expenditure within the limits prescribed under Regulation 52(6) of the Mutual Funds Regulations.[185]

10.1.4 Further, each item of expenditure accounting for more than 10% of total expenditure shall be disclosed in the accounts or the notes thereto of the schemes[186]

10.2 Restriction on paying brokerage or commission[187]

10.2.1 In case of investments made by the Sponsor(s), no brokerage or commission shall be paid.

10.3 Restriction on charging Service Tax[188]

10.3.1 AMC(s) can charge Service Tax, as per applicable Taxation Laws, to the scheme(s) within the limits prescribed under Regulations[189]

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[185] SEBI Circular No. IIMARP/MF/CIR/07/826/98 dated April 15, 1998.

[186] SEBI Circular No. MFD/CIR/9/120/2000 dated November 24, 2000.

[187] SEBI Circular No. MFD/CIR No.3/211/2001 dated April 30, 2001, SEBI Circular No. MFD/CIR No.5/153/2001 dated May 24, 2001.

[188] SEBI Circular No. MFD/CIR/04/430/2002 dated June 19, 2002.

[189] 52(6) of the Mutual Funds Regulations.

10.4 Empowering investors through transparency in payment of commission and load structure[190]

10.4.1 In order to empower investors in deciding the commission paid to distributors in accordance with the level of service received, it has been mandated that:

10.4.1.1 There shall be no entry load[191] for all Mutual Fund schemes.

10.4.1.2 The scheme application forms shall carry a suitable disclosure to the effect that the upfront commission to distributors will be paid by the investor directly to the distributor, based on his assessment of various factors including the service rendered by the distributor.

10.4.1.3 Of the exit load or CDSC charged to the investor, a maximum of 1% of the redemption proceeds shall be maintained in a separate account which can be used by the AMC to pay commissions to the distributor and to take care of other marketing and selling expenses. Any balance shall be credited to the scheme immediately.

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[190] SEBI Circular No SEBI/IMD/CIR No. 4/ 168230/09 dated June 30, 2009

[191] Waiver of load for direct applications - Vide SEBI Circular No. SEBI/IMD/CIR No.10/112153/07 dated December 31, 2007,SEBI mandated w.e.f January 4,2009 no entry load shall be charged for applications received directly by the AMC(s) through internet or submitted directly to the AMC(s) or Collection Center/Investor Service Centre and not routed through any distributor or agent or broker. This waiver was applicable to both additional purchases under the same folio and 'switch in' to a scheme from other schemes also done directly by the investor. AMCs shall follow the provisions pertaining to informing the unitholders upon a change in load structure as per clause 3(d) of standard observations.

10.4.1.4 The distributors should disclose all the commissions (in the form of trail commission or any other mode) payable to them for the different competing schemes of various Mutual Funds from amongst which the scheme is being recommended to the investor.

10.4.2 The above guidelines became applicable for:

10.4.2.1. Investments in mutual fund schemes (including additional purchases and switch-in to a scheme from other schemes) w.e.f August 1, 2009

10.4.2.2. Redemptions from mutual fund schemes (including switch-out from other schemes) w.e.f August 1, 2009

10.4.2.3. New mutual fund schemes launched on or after August 1, 2009

10.4.2.4. Systematic Investment Plans (SIP) registered on or after August 1, 2009[192]

10.4.4 The AMCs are required to bring the contents of these guidelines to the notice of their distributors and monitor compliance.

10.5 No Load on Bonus Units and Units allotted on Reinvestment of Dividend[193]

10.5.1 AMC(s) shall not charge entry and/or exit load on bonus units and units allotted on reinvestment of dividend. Necessary disclosures in this regard shall be made in the SID filed with the Board.[194]

10.6 Filing fees [195]

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[193] SEBI Circular No. SEBI/IMD/CIR No. 14/120784/08 dated March 18, 2008.

[195] SEBI Cir No. SEBI / IMD / CIR No. 5 / 169030 / 2009 dated July 8, 2009

10.6.1 Revised filing fee[196] as per the amendment would be applicable to those scheme(s) whose SID has been filed with SEBI on or after July 01, 2009

10.7 Exit load parity

10.7.1 While charging exit loads, no distinction among unit holders should be made based on the amount of subscription.[197] While complying with the same, Mutual Funds should ensure that "any imposition or enhancement in the load shall be applicable on prospective investments only.[198]

10.7.2 Further, the parity among all classes of unit holders in terms of charging exit load shall be made applicable at the portfolio level.[199]

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[196] Gazettee Notification No. LAD-NRO/GN/2009-10/11/167759 on SEBI (Payment of Fees) (Amendment) Regulations, 2009 dated 29 June, 2009

[197] SEBI Circular No. SEBI / IMD / CIR No. 6 /172445/ 2009 dated August 7,2009 All Mutual Funds shall ensure compliance with this circular on or before August 24, 2009

[198] SEBI Circular No - SEBI / IMD / CIR No. 7 /173650 / 2009 dated August 17,2009 and SEBI circular No. SEBI/IMD/CIR No. 5/126096/08 dated May 23, 2008 (clause 16 of the standard observations)

[199] SEBI Circular No - SEBI / IMD / CIR No. 7 /173650 / 2009 dated August 17,2009

CHAPTER 11

DIVIDEND DISTRIBUTION PROCEDURE[200, 201]

11.1 Regulations[202] permit Mutual Funds to distribute returns including dividend. To introduce uniform practices in dividend distribution, the following guidelines should be followed:

11.2 These guidelines are applicable to all Mutual Fund schemes/plans which intend to declare the dividend irrespective of their dates of launch.[203]

11.2.1 Unlisted Scheme(s)/ Plan(s)

11.1.1.1 The Trustees shall decide the quantum of dividend and the record date in their meeting[204]. Dividend so decided, shall be paid, subject to availability of distributable surplus.

11.2.1.2 Record date shall be the date which will be considered for the purpose of determining the eligibility of investors whose names appear on the register of unit holders for receiving dividends. The NAV shall be adjusted to the extent of dividend

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200 SEBI Circular No. SEBI/IMD/CIR No.1/64057/06 dated April 4, 2006.

201 For details on advertisement on dividend please refer to chapter on 'Advertisements'

202 Regulation 53(a) of the Mutual Funds Regulations

203 SEBI Circular No SEBI/IMD/CIR No. 3/65370/06 dated April 21,2006

204 Clause 20 of Third Schedule of Mutual Funds Regulations

distribution and statutory levy, if applicable, at the close of business hours on record date.

11.2.1.3 Within one calendar day of the decision of the Trustees with respect to the dividend to be distributed, the AMC(s) shall issue a notice to the public communicating the decision including the record date. The record date shall be five calendar days from the issue of public notice.

11.2.1.4 Before the issue of such notice, no communication whatsoever indicating the probable date of dividend declaration shall be issued by any Mutual Fund or its distributors of its products.

11.2.1.5 Such notice shall be given in at least one English daily newspaper having nationwide circulation as well as in a newspaper published in the language of the region where the head office of the Mutual Fund is situated.

11.2.1.6 The notice shall, in font size 10, bold, categorically state that pursuant to dividend distribution, NAV of the scheme would fall to the extent of payout and statutory levy (if applicable).

11.2.2 <u>Liquid / Debt Schemes with frequent dividend distribution</u>

11.2.2.1 The requirement of giving notice is not mandatory for scheme(s)/ plan(s)/ option(s) with dividend distribution frequency ranging from daily up to monthly distribution if requisite disclosures in this regard are made in the SID.

11.2.3 <u>Listed Schemes/Plans</u>

11.2.3.1 Listed scheme(s)/ plan(s) shall follow the requirements stipulated in the Listing Agreement for dividend declaration and distribution.

CHAPTER 12

INVESTMENT BY SCHEMES[205]

12.1 Investments by Index Funds:[206]

12.1.1 Investments by index funds shall be in accordance with the weightage of the scrips in the specific index as disclosed in the SID[207] In case of sector or industry specific scheme, the upper ceiling on investments may be in accordance with the weightage of the scrips in the representative sectoral index or sub index as disclosed in the SID or 10% of the NAV of the scheme, whichever is higher.

12.2 Investments by Liquid Schemes and plans[208]

12.2.1 The 'liquid fund schemes and plans' shall make investment in /purchase debt and money market securities with maturity of upto 91 days only [209]. This shall also be applicable in case of inter scheme transfer of securities [210]

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[205] Investments in Money Market instruments (MMIs)
In case of the existing schemes (i.e. existing on date of issue of SEBI Circular No - SEBI / IMD / CIR No.3 / 166386 / 2009 dated June 15, 2009) where the investments in money market instruments of an issuer are not in compliance with the Gazette Notification No. LAD – NRO/GN/2009-10/07/165404 dated June 5, 2009, AMC shall ensure compliance within a period of 3 months from the date of notification.

[206] SEBI Circular No - MFD/CIR/09/014/2000 dated January 5, 2000

[207] See Clause 10, Seventh Schedule of Mutual Funds Regulations.

[208] SEBI Circular No - SEBI/IMD/CIR No.13/150975 / 09 dated January 19, 2009
[209] With effect from February 01, 2009 make investment in /purchase debt and money market securities with maturity of upto182 days only.

[210] Transition provision:
Inter-scheme transfers of securities having maturity upto 365 days and held in other schemes as on February 01, 2009 shall be permitted till October 31, 2009. With effect from November 1, 2009 the requirements stated at paragraph 12.2.1 above shall apply to such inter-se scheme transfers also.

12.2.1.1 Explanation:

a. In case of securities where the principal is to be repaid in a single payout the maturity of the securities shall mean residual maturity. In case the principal is to be repaid in more than one payout then the maturity of the securities shall be calculated on the basis of weighted average maturity of security.

b. In case of securities with put and call options (daily or otherwise) the residual maturity of the securities shall not be greater than 91 days[211]

c. In case the maturity of the security falls on a non-business day then settlement of securities will take place on the next business day.

12.2.2 The above requirements shall be disclosed in the SID and shall form part of the investment allocation pattern. Any deviation from these requirements shall be viewed as violation of investment restrictions.

12.3 Investments by close ended debt schemes:

12.3.1 Close ended debt schemes shall invest only in such securities which mature on or before the date of the maturity of the scheme[212]

12.4 Stock Lending Scheme[213]

12.4.1 The following guidelines are issued to facilitate lending of securities by Mutual Funds through intermediaries approved by the Board in accordance with the Stock Lending & Borrowing Scheme.[214]

12.4.2 Disclosure Requirements

[211] w.e.f May 01, 2009.

[212] SEBI Circular No IMD/CIR No 12/147132/08 dated December 11, 2008.
[213] SEBI Circular No MFD/CIR/01/047/99 dated February 10, 1999.

[214] Regulation 44(4) of the Mutual Funds Regulations.

12.4.2.1 The following information shall be disclosed in the SID to enable the investors and unit holders to take an informed decision:

a. Intention to lend securities belonging to a particular Mutual Fund scheme in accordance with the guidelines on securities lending and borrowing scheme issued by SEBI from time to time.[215]

b. Exposure limit with regard to securities lending, both for the scheme as well as for a single intermediary.

c. Risks factors such as loss, bankruptcy etc. associated with such transactions.

12.4.3 Reporting Requirement

12.4.3.1 The AMC(s) shall report to the Trustees on a quarterly basis about the level of lending, in terms of value, volume and intermediaries and also earnings and/or losses, value of collateral security etc.

12.4.3.2 The Trustees shall periodically review the securities lending contract and take reasonable steps to ensure that the same is not, in any way, detrimental to the interests of the unit holders of the scheme.

12.4.3.3 The Trustees shall offer their comments on the above aspects in the Half Yearly Trustee Report filed with the Board.[216]

12.4.4 Existing schemes

12.4.4.1 In case an existing SID does not provide for lending of securities, Mutual Funds may still lend securities belonging to the scheme, in accordance with the SEBI Guidelines, provided approval is obtained

[215] SEBI Circular No - SEBI / IMD / CIR No 14 / 187175/ 2009 dated December 15,2009

[216] Regulation 18(23)(a) of the Mutual Funds Regulations. Further, for format of Half Yearly Trustee Report please refer to chapter on Formats.

from the Trustees and the intention to lend securities is conveyed to the unit holders.

12.5 Approval for Investment in Unrated Debt Instruments[217]

12.5.1 Mutual Funds may, for the purpose of operational flexibility, constitute committees to approve investment proposals in unrated instruments. However, detailed parameters for investment in unrated debt instruments have to be approved by the Board of the AMC and Trustees. Details of such investments shall be communicated by the AMCs to the Trustees in their periodical reports, along with clear indication as to how the parameters set for investments have been complied with. Prior approval of the Board of the AMC and Trustees shall be required in case investment is sought to be made in an unrated security falling outside the prescribed parameters.

12.6 Investments in Units of Venture Capital Funds[218]

12.6.1 Mutual Fund schemes can invest in listed or unlisted securities or units of Venture Capital Funds within the prescribed investment limits as applicable.[219]

12.7 Investment limits for Government guaranteed debt securities[220]

[217] SEBI Circular No. MFD/CIR/9/120/2000 dated November 24, 2000.

[218] SEBI Circular No. MFD/CIR/9/230/2001 dated August 14, 2001.

[219] Clauses 10 and 11, Seventh Schedule of Mutual Funds Regulations.

[220] SEBI Circular No. SEBI/IMD/CIR No.8/18944/03 dated October 6, 2003.

12.7.1 Prudential investment norms as per Regulations stipulating limits for investments in debt securities[221] issued by a single issuer are applicable to all debt securities issued by public bodies or institutions such as electricity boards, municipal corporations, state transport corporations etc. guaranteed by either State / Central Government. Government securities issued by Central and/or State Government or on its behalf, by the RBI are however exempt from these limits.

12.8 Investment Restrictions for Securitised Debt[222]

12.8.1 For investments made in Securitised Debt (mortgage backed securities and asset backed securities), restrictions as per Clause 1 of Seventh Schedule[223] shall not apply at the originator level.

12.9 Investments in Short Term Deposits of Scheduled Commercial Banks[224]

12.9.1 The guidelines for deployment of funds in short term deposits of commercial banks for schemes are as under:

12.9.1.1 "Short Term" for parking of funds by Mutual Funds shall be treated as a period not exceeding 91 days.[225]

12.9.1.2 Such deposits shall be held in the name of the concerned scheme.

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[221] Clauses 1 and 1A, Seventh Schedule of Mutual Funds Regulations.

[222] SEBI Circular No. SEBI/IMD/CIR No.6/63715/06 dated March 29, 2006.
[223] Clause I of Schedule VII of Mutual Fund Regulations
[224] SEBI Circulars No. SEBI/IMD/CIR No.9/20306/03 dated November 12, 2003, SEBI Circular No. SEBI/IMD/Cir No.1/91171/07 dated April 16, 2007, SEBI and Clause 8 of Seventh Schedule of Mutual Funds Regulations, 1996.

[225] SEBI Circular No. SEBI/IMD/Cir No.1/91171/07 dated April 16, 2007.

12.9.1.3 Mutual Funds shall not park more than 15% of their net assets in short term deposits of all scheduled commercial banks put together. This limit however may be raised to 20% with prior approval of the Trustees. Also, parking of funds in short term deposits of associate and sponsor scheduled commercial banks together shall not exceed 20% of the total deployment by the Mutual Fund in short term deposits.

12.9.1.4 Mutual Funds shall not park more than 10% of the net assets in short term deposits with any one scheduled commercial bank including its subsidiaries.

12.9.1.5 Trustees shall ensure that funds of a particular scheme are not parked in short term deposit of a bank which has invested in that scheme.

12.9.1.6 In case of liquid and debt oriented schemes, AMC(s) shall not charge any investment management and advisory fees for parking of funds in short term deposits of scheduled commercial banks.

12.9.1.7 Half Yearly portfolio statements shall disclose all funds parked in short term deposit(s) under a separate heading. Details shall also include name of the bank, amount of funds parked, percentage of NAV.

12.9.1.8 Trustees shall, in the Half Yearly Trustee Reports certify that provisions of the Mutual Funds Regulations pertaining to parking of funds in short term deposits pending deployment are complied with at all points of time. The AMC(s) shall also certify the same in its CTR(s).

12.9.1.9 Investments made in short term deposits pending deployment of funds[226] shall be recorded[227] and reported to the Trustees including

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[226] Clause 8, Schedule Seven, Mutual Funds Regulations.

[227] SEBI Circular No. MFD/CIR/6/73/2000 dated July 27, 2000.

the reasons for the investment especially comparisons with interest rates offered by other scheduled commercial banks.[228]

12.9.1.10 Except for clause (12.9.1.7) the above guidelines shall not apply to term deposits placed as margins for trading in cash and derivatives market[229]. However, duration of such term deposits shall be disclosed in the Half Yearly Portfolio.[230]

12.10 Reconciliation Procedure for Investment in Government Securities[231]

12.10.1 According to the RBI guidelines[232] issued to all SGL account holders, to make transactions in government securities transparent, a monthly reconciliation system has been introduced between RBI and Mutual Funds maintaining SGL/CSGL accounts with respect to Government Securities on an ongoing basis.

12.10.2 Mutual Funds shall reconcile the balances reported in the monthly statements furnished by RBI with the transactions undertaken by them.

12.10.3 The reconciliation procedure shall be made part of internal audit and the auditors shall on a continuous basis, check the status of reconciliation and submit a report to the Audit Committee. These reports shall be placed in the meetings of the Board of the AMC and Trustees. Mutual Funds shall submit, on a quarterly basis to the RBI, a certificate confirming compliance with these requirements and any other guidelines issued by the RBI from time to time in this regard.

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[228] SEBI Circular No. SEBI/IMD/CIR No.9/20306/03 dated November 12, 2003.

[229] SEBI Circular No. SEBI/IMD/Cir No.7/129592/08 dated June 23, 2008.
[230] SEBI Circular No. SEBI/IMD/Cir No.7/129592/08 dated June 23, 2008
[231] SEBI Circular No. MFD/CIR/19/22474/2002 dated November 20, 2002.

[232] RBI Circular No.P.D.O.SGL.CIRR/1945/2002-2003 dated November 1, 2002.

Compliance shall also be reported to the Board in the CTRs of AMC(s) and Half Yearly Trustee Reports.

12.11 Overseas Investment[233]

12.11.1 Applicable limits:

12.11.1.1 Aggregate ceiling for overseas investments is US $ 7 billion[234] and within this overall limit, Mutual Funds can make overseas investments subject to a maximum of US $ 300 million per Mutual Fund.

12.11.1.2 Aggregate ceiling for investment by Mutual Funds in overseas Exchange Traded Fund (ETF(s)) that invest in securities is US $ 1 billion subject to a maximum of US $ 50 million per Mutual Fund.

12.11.2 Permissible investments:

12.11.2.1 ADR(s) and/or GDR(s) issued by Indian or foreign companies.

12.11.2.2 Equity of overseas companies listed on recognized Stock Exchanges overseas.

12.11.2.3 Initial and Follow on Public Offerings for listing at recognized Stock Exchanges overseas.

12.11.2.4 Foreign debt securities in the countries with fully convertible currencies, short term as well as long term debt instruments with rating not below investment grade by accredited/ registered credit rating agencies.

12.11.2.5 Money Market Instruments rated not below investment grade.

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[233] SEBI Circular No. SEBI/IMD/CIR No.7/104753/07 dated September 26, 2007 & SEBI Circular No. SEBI/IMD/CIR No.2/122577/08 dated April 8, 2008.

[234] SEBI Circular No. SEBI/IMD/CIR No.2/122577/08 dated April 8, 2008.

12.11.2.6 Repos in form of investment, where the counterparty is rated not below investment grade; repo shall not however involve any borrowing of funds by Mutual Funds

12.11.2.7 Government securities where the countries are rated not below investment grade.

12.11.2.8 Derivatives traded on recognized stock exchanges overseas only for hedging and portfolio balancing with underlying as securities.

12.11.2.9 Short term deposits with banks overseas where the issuer is rated not below investment grade.

12.11.2.10 Units / securities issued by overseas Mutual Funds or unit trusts registered with overseas regulators and investing in

a. Aforesaid Securities
b. Real Estate Investment Trusts listed on recognized Stock Exchanges overseas or
c. Unlisted overseas securities, not exceeding 10% of their net assets

12.11.3 Other Conditions:

12.11.3.1 Apart from the Mutual Funds Regulations and guidelines issued from time to time, Mutual Funds shall adhere to the following specific guidelines while making overseas investments:

12.11.3.2 Appointment of a Dedicated Fund Manager:

a. A dedicated fund manager shall be appointed for making the above overseas investments stipulated under clause 12.11.2.1 to 12.11.2.9.

12.11.3.3 Due Diligence:

a. The Board of the AMC and Trustees shall exercise due diligence in making investment decisions and record the same.[235] They shall make a detailed analysis of risks and returns of overseas investment and how these investments would be in the interest of investors. Investment shall be made in liquid actively traded securities /instruments.

b. The Board of the AMC and Trustees may prescribe detailed parameters for making such investments which may include identification of countries, country rating, country limits etc. They shall satisfy themselves that the AMC has experienced key personnel, research facilities and infrastructure for making such investments. Other specialized agencies and service providers associated with such investments e.g. custodian, bank, advisors etc. shall also have adequate expertise and infrastructure facilities. Their past track record of performance and regulatory compliance record, if they are registered with foreign regulators, should also be considered. Necessary agreements may be entered into with them as required.

12.11.3.4 <u>Mandatory Disclosure Requirements for Mutual Fund schemes proposing overseas investments</u>:

a. Intention to invest in foreign securities and/or ETF(s) shall be disclosed in the SID. The attendant risk factors and returns ensuing from such investments shall be explained clearly in the SID. Mutual Funds shall also disclose as to how such investments will help in the furtherance of the investment objectives of the scheme(s). Such disclosures shall be in a language comprehensible to an average investor

[235] SEBI Circular No. MFD/CIR/6/73/2000 dated July 27, 2000.

b. Mutual Funds shall disclose the name of the Dedicated Fund Manager for making overseas investments as stipulated under paragraph 12.11.3.2 above.
c. Mutual Funds shall disclose exposure limits i.e. the percentage of assets of the scheme they would invest in foreign securities / ETF(s).
d. Such investments shall be disclosed while disclosing Half Yearly portfolios in the prescribed format under a separate heading "Foreign Securities and/or overseas ETF(s)." Scheme wise percentage of investments made in such securities shall be disclosed while publishing Half Yearly Results in the prescribed format[236] as a footnote.

12.11.3.5 Investment by Existing Schemes*:*

a. Existing schemes of Mutual Funds where the SID provides for investment in foreign securities and attendant risk factors but which have not yet invested, may invest in foreign securities, consistent with the investment objectives of the schemes, provided a Dedicated Fund Manager has been appointed as stipulated in paragraph 12.11.3.2. Additional disclosures specified above shall be included by way of addendum and unit holders will be informed accordingly.

b. In case the SID of an existing scheme does not provide for overseas investment, the scheme, if it so desires, may make such investments in accordance with these Guidelines, provided that prior to the overseas investments for the first time, the AMC shall ensure that a written communication about the proposed investment is sent to each unit holder and an advertisement is given in one English daily newspaper having nationwide circulation as well as in a newspaper published in the language of the region where the Head Office of the Mutual Fund is situated. The communication to unit holders shall also disclose the risk factors associated with such investments.

[236] For Half Yearly Results, please refer to the chapter on Formats

12.11.3.6 Detailed periodic reporting to Trustees by AMC(s) shall include*:*

a. Performance of overseas investments
b. Amount invested in various schemes and any breach of the exposure limit laid down in the SID.

12.11.3.7 Review of Performance*:*

a. The Board of the AMC and Trustees shall review the performance of schemes making overseas investments with appropriate benchmark(s) as disclosed in the SID.

12.11.3.8 Reporting to the Board:

a. The Trustees shall offer their comments on the compliance of these guidelines in the Half Yearly Reports filed with the Board.

12.11.3.9 Prudential Investment Norms*:*

a. Investment restrictions specified in Schedule Seven of the Mutual Funds Regulations are applicable to overseas investments stipulated under paragraph 12.11.2.1- 12.11.2.9

b. However, Clause 4 of the Seventh Schedule of the Mutual Funds Regulations that restricts investments in Mutual Fund units up to 5% of net assets and prohibits charging of fees, shall not be applicable to investments in Mutual Funds in foreign countries made in accordance with these Guidelines.

c. Management fees and other expenses charged by the Mutual Funds in foreign countries along with the management fee and recurring expenses charged to the domestic Mutual Fund scheme shall not exceed the total limits on expenses as prescribed under Regulation 52(6) of the Mutual Funds Regulations. Where the scheme is investing only a part of the net assets in overseas Mutual Funds, the same principle shall be applicable for that part of investment. Details of calculation for charging such expenses shall be reported to the Board of the AMC and the Trustees and shall also be disclosed in the Annual Report of the scheme

d. The application[237] for seeking approval for investing in foreign securities, ADR/GDR/overseas ETF(s) shall be made in advance of making investments. On receipt of approval from the Board, intimation may be sent by the AMC(s) to Overseas Investment Division, Foreign Exchange Department, RBI.

12.12 Investments in Indian Depository Receipts (IDRs)[238]

12.12.1 Mutual funds can invest in Indian Depository Receipts[239] [Indian Depository Receipts as defined in Companies (Issue of Indian Depository Receipts) Rules, 2004] subject to compliance with SEBI (Mutual Funds) Regulations 1996 and guidelines issued there under, specifically investment restrictions as specified in the Seventh Schedule of the Regulations.

12.1 3 Investment Restrictions[240]

12.13.1 All investment restrictions as contained in the Regulations[241] shall be applicable at the time of making investment.

12.14Recording of Investment Decisions[242]

[237] Please refer the chapter on formats for format of proposal for investments in foreign securities and ETFs
[238] SEBI Circular No. IMD/CIR. No.1/165935/2009 dated June 09, 2009
[239] regulation 43(1) of SEBI (Mutual Funds) Regulations 1996
[240] SEBI Circular No. MFD/CIR/09/014/2000 dated January 5, 2000.

[241] Seventh Schedule of Mutual Funds Regulations.

[242] SEBI Circular No. MFD/CIR/6/73/2000 dated July 27, 2000.

12.14.1 AMC(s) shall exercise due diligence and care in all investment decisions as would be exercised by other persons engaged in the same business.[243] Further AMC(s) shall maintain records in support of each investment decision which will indicate data, facts and opinion leading to that decision. While broad parameters for investments can be prescribed by the Board of Directors of the AMC, the basis for taking individual scrip wise investment decision in equity and debt securities shall be recorded. A detailed research report analyzing various factors for each investment decision taken for the first time shall be maintained and the reasons for subsequent purchase and sales in the same scrip shall also be recorded. The contents of the research reports may be decided by the AMC(s) and the Trustees.

12.14.2 The Board of the AMC shall develop a mechanism to verify that due diligence is being exercised while making investment decisions especially in cases of investment in unlisted and privately placed securities, unrated debt securities, NPAs, transactions where associates are involved and instances where the performance of the scheme(s) is poor.

12.14.3 AMC(s) shall report compliance with these requirements in their periodical reports to the Trustees and the Trustees shall report the same to the Board in the Half Yearly Trustee Reports[244]. Trustees shall also check compliance with these Guidelines through independent auditors or internal and/or statutory auditors or other systems developed by them.

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[243] Regulation 25(2) of the Mutual Funds Regulations.

[244] For Half Yearly Trustee Report please refer to the chapter on Formats

CHAPTER 13

ADVERTISEMENTS[245]

13.1 The following guidelines are supplementary to the existing Advertisement Code[246] and shall apply to all forms of advertisements, sales literature and communications howsoever released.

13.2 Definitions:

13.2.1 Communication includes all advertisements through any media, sales literature, TV interview public speaking, presentation at seminars, freelance writing and websites.

13.2.2 Advertisement shall have the same meaning as defined under Regulations[247] and would include any material published or designed to be published, in which a Mutual Fund has no control over the audience and which is broadly distributed. The purpose of such communication shall be either to sell Mutual Fund units or to convey the performance of the schemes or to influence the opinion or behavior of those who receive such communication. All material contained in such advertisements must be verified or substantiated with the disclosures made in the Scheme Information Document (SID).

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245 SEBI Circular No. MFD/CIR/4/51/2000 dated June 5, 2000, SEBI Circular No. SEBI/MFD/CIR No.6/12357/03 dated June 26, 2003 and SEBI Circular No. SEBI/IMD/CIR No. 12/118340/08 dated February 26, 2008.

246 See Advertisement Code – Sixth Schedule, Mutual Funds Regulations,1996

247 Regulation 2(b) of the Mutual Funds Regulations,1996

13.2.3 Sales Literature means any written communication not amounting to "advertisement" and distributed to sell or induce sale of units of a mutual fund scheme or convey periodic performance of the schemes and disclosure of their portfolios or to influence the opinion or behavior of those who receive such communication. It includes leaflets, newsletters, brochures, mailers, performance reports or summaries, circulars, seminars/workshop materials,[248] fund fact sheets, research reports, telemarketing scripts, press releases and reprints or excerpts of any other advertisements or published article, etc.[249] but will not include motivational letters written to marketing intermediaries and agents.

13.2.4. Advertisements or distribution of Sales Literature must be accompanied or preceded by issue of a SID and SAI, unless stated otherwise[250] and shall be substantiated with the disclosures made in the SID and SAI.

13.3 Standards of Communications[251]

13.3.1 The following standards of communication shall be followed. These shall also be followed in case of activities organized to promote Mutual Funds, the AMC(s) or their schemes:

13.3.1.1 Communications shall be fair and in good faith.

13.3.1.2 No material fact shall be omitted, if such omission will cause the communication to be misread and misunderstood.

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[248] SEBI Circular No. MFD/CIR/4/51/2000 dated June 5, 2000.

[249] SEBI Circular No. SEBI/MFD/CIR No.6/12357/03 dated June 26, 2003.

[250] SEBI Circular No. SEBI / IMD / CIR No 14 / 187175/ 2009 dated December 15,2009

[251] SEBI Circular No. MFD/CIR/4/51/2000 dated June 5, 2000.

13.3.1.3 The fact that Mutual Fund investments are prone to risks of fluctuation in NAV, uncertainty of dividend distributions, etc. shall be adequately brought to the notice of unit holders or public in all communications.

13.3.1.4 When engaged in public speaking, seminars, TV or Radio shows, interview to the press etc., Mutual Funds and their employees shall observe these Guidelines, even though some of such forms of communications may not amount to advertisement and/or distribution of Sales Literature.

13.3.1.5 Use of exaggerated or unwarranted claims, superlatives and opinions, not substantiated by available public data shall be refrained from and future forecasts and estimates of growth shall be avoided.

13.3.1.6 Disclosure of risks as required by the Mutual Funds Regulations shall not be treated as a hedge in communications with investors or customers.

13.3.1.7 Statistical information, charts, graphs, etc., when used, shall be supported by their source, if any.

13.3.1.8 Comparisons shall be refrained from unless essential to the form and content of the advertisement. If used, such comparisons must be clear and unambiguous.

13.4 Misleading Advertisement or Sales Literature or Communication[252]

13.4.1 An Advertisement or Sales Literature or Communication is misleading if it:

[252] SEBI Circular No. MFD/CIR/4/51/2000 dated June 5, 2000.

13.4.1.1 Contains an untrue statement.

13.4.1.2 Omits a fact, material to an investor's decision to buy/hold/sell units

13.4.1.3 Does not contain appropriate explanation or limitations to make the statements made therein clear.

13.4.1.4 Portrays part incomes, returns, growth in NAV unless such incomes, returns or growth are computed according to these Guidelines.

13.4.1.5 Contains forecasts of growth in NAVs or promises returns that is not backed by adequate reserve funds or sponsors' or third party guarantees.

13.4.1.6 Contains unwarranted or unexplained comparisons.

13.4.1.7 Contains claims about management capability where such capability is not supported by a track record of minimum 3 years.

13.5 Applicability

13.5.1 These guidelines apply to T.V. interviews, public speaking, presentations in seminars and workshops, and any forum used by Mutual Funds to market or convey the performance of their schemes. However these guidelines will not be applicable for communications that carry general messages or public speaking that is a general discourse on Mutual Funds with no references to a fund scheme or performance.

13.6 Forms of Advertisement[253]

13.6.1 Tombstone Advertisement[254]

[253] SEBI Circular No. MFD/CIR/4/51/2000 dated June 5, 2000.

13.6.1.1 This form of advertisement can only give basic information about a:

a. Mutual fund registered with SEBI whose Statement of Additional Information is filed with SEBI or

b. Scheme which is already launched and is in existence and whose Scheme information document is available.

13.6.1.2 These advertisements must contain the following minimum information:

a. Name of the Mutual Fund and the Asset Management Company (AMC).

b. Scheme name and classification (i.e. income/growth etc.) indicating investment objectives of the scheme.

c. Logo or trademark or corporate symbol, if any.

d. General services offered i.e. frequency of Net Asset Value (NAV) disclosure, liquidity etc.

e. Contact details for further information and scheme literature, etc.

f. Entry and/or exit loads, if applicable if the advertisement is for a scheme.

13.6.1.3 The following information is prohibited in this form of advertisement:

a. Declaration of NAV and performance of the scheme.

b. Promise of any returns except in case of assured returns schemes.

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[254] SEBI Circular No. SEBI / IMD / CIR No 14 / 187175/ 2009 dated December 15,2009

c. Comparisons and usage of ranking given by a third party.

d. Product Launches - mean and include all advertisements issued during the period in which the NFO is open.

13.6.1.4 In such advertisements, risk factors may not be mentioned. However, a general statement to refer to the SID for details is necessary. Tombstone advertisement could be through any media and would cover hoardings, bus panels, kiosks, web – display etc.

13.6.2 Product Launch Advertisement*:*

13.6.2.1 This form of advertisement shall be used only for launch and/ or re-launch of schemes. These advertisements must contain the following minimum information:

a. Name of the Mutual Fund and the AMC.
b. Scheme name and classification (i.e. income/growth etc.)
c. Investment objective, asset allocation or highlights thereof.
d. Terms of issue and mode of sale and redemption of units.
e. Investor benefits and general services offered i.e. frequency of NAV disclosure etc.
f. In case of assured return schemes, the resources that back such assurances.
g. Logo or trademark or corporate symbol, if any.
h. Risk factors as stated in the SID with a font equal to that of the text of the highlights.
i. Applicable load structure
j. Contact information of person from whom a copy of SID and SAI and Key Information Memorandum along with an application form may be obtained.

k. The statement that an investor should read the SID and SAI before investing in the scheme
l. In addition, any other information as may be required by the Advertisement Code or voluntarily disclosed by the Mutual Fund as long as such information is not specifically prohibited by these Guidelines.

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13.6.2.2 The following information is prohibited in this form of advertisement:

a. Declaration of NAV and performance figures of any of the previous schemes unless such performance statements conform to these Guidelines.
b. Comparisons with other Mutual Funds or schemes.
c. Ranking by any ranking entity as defined under these Guidelines.

13.6.2.3 All that is stated in the Product Launch advertisement should be substantiated with the SID & SAI,

13.6.3 Performance Advertisement*:*

13.6.3.1 If Mutual Funds use performance figures in their advertisements and/ or sales literature or issue exclusive performance advertisements, such advertisements shall adhere to the following Guidelines:

a. Such advertisements shall identify the nature of the scheme and its basic investment objective.
b. The dividends declared or paid shall also be mentioned in Rupees per unit along with the face value of each unit of that scheme and the prevailing NAV at the time of declaration of the dividend.

c. Only compounded annualized yield shall be advertised, calculated using the procedure detailed in the Standard Format of the SID[255], if the scheme has been in existence for more than 1 year. All performance calculations shall be based only on NAV and payouts to the unit holders. The calculation of returns shall assume that all payouts during the period have been reinvested in the scheme at the then prevailing NAV and this shall be clarified in the advertisements. The type of plan or option of the scheme for which yield is advertised shall also be mentioned.

d. The aforesaid annualized yields when used shall be shown for the, last 1 year, 3 years, 5 years and since the launch of the scheme. For Funds in existence for less than one year, performance may be advertised in terms of total returns and such return shall not be annualized.

e. In case of Money Market schemes or cash and liquid plans, wherein investors have very short investment horizon, the performance can be advertised by simple annualisation of yields if a performance figure is available for at least 7 days[256], 15 days[257] and 30 days[258] provided it does not reflect an unrealistic or misleading picture of the performance or future performance of the scheme.[259]

f. All advertisements displaying returns or yields must disclose in the main body of the advertisement, immediately after the returns or yields and in the same font that past performance

[255] For SID format please refer chapter on Formats

[256] SEBI Circular No. SEBI / IMD / CIR No 14 / 187175/ 2009 dated December 15,2009

[257] SEBI Circular No. SEBI/MFD/CIR No.6/12357/03 dated June 26, 2003.

[258] SEBI Circular No. MFD/CIR/4/51/2000 dated June 5, 2000.

[259] SEBI Circular No. MFD/CIR/4/51/2000 dated June 5, 2000.

may or may not be sustained in future. If the returns or yield are unrealistically higher due to extraordinary circumstances (e.g. rise or fall in interest rates etc.), the same shall be clarified in the advertisement.

g. All performance data contained in the advertisement must be of most recent practicable date depending upon the type of communication. In any case, the data used must not be older than the most recent calender quarter ended prior to the release of the advertisement.

h. Appropriate benchmark(s) and identical time periods shall be used for comparisons.[260]

i. Impact of Distribution Taxes: While advertising returns by assuming reinvestment of dividends, if distribution taxes are excluded while calculating the returns, this fact shall also be disclosed. [261]

j. Pay out of Dividend: While advertising pay out of dividends, all advertisements shall disclose, immediately below the dividend figure (in percentage or in absolute terms) and in the same font size that the NAV of the scheme, pursuant to payment of dividend would fall to the extent of payout and statutory levy (if applicable).[262]

13.7 Advertisements through Hoardings and/or Posters[263]

13.7.1 It is essential for the investors to read the SID and SAI and risk factors before investing in Mutual Fund schemes to arrive at a well informed investment decision. Considering that investors get very

[260] For examples of benchmarks and other details refer Chapter on Scheme Information Document.

[261] SEBI Circular No. SEBI/MFD/CIR No.6/12357/03 dated June 26, 2003.

[262] SEBI Circular No. SEBI/IMD/CIR No.1/64057/06 dated April 4, 2006.

[263] SEBI Circular No. SEBI/MFD/CIR No.6/12357/03 dated June 26, 2003.

little time to read the advertisements through hoardings or posters etc. while passing by, it is clarified that such advertisements shall carry only the following statement besides the copy of advertisement: "Mutual Fund investments are subject to market risks, read the Offer Document carefully before investing."

13.7.2 The above statement shall be displayed in black letters of at least 8 inches height or covering 10% of the display area, on a white background. The Compliance Officers of the Mutual Funds/ AMC shall ensure that the statements appearing in such advertisements are in legible font.

13.8 Advertisements through Audio-Visual Media[264]

13.8.1 In audio-visual media based advertisements, the statement "Mutual Fund investments are subject to market risks, read the Offer Document carefully before investing" shall be displayed in a clearly legible font size covering at least 80% of the total screen space. The remaining 20% space can be used for the name of the Mutual Fund or logo or name of the scheme, etc. The display and voice over reiteration of the statement mentioned above shall be for a period of at least five seconds[265] and in an easily understandable manner.

13.8.2 Advertisements through audio media like radio, cassettes, CDs etc. shall read the above statement in a manner easily understandable to the listeners over a period of five seconds.[266]

13.9 Sales Literature

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[264] SEBI Circular No. SEBI/MFD/CIR No.6/12357/03 dated June 26, 2003.

[265] SEBI Circular No. SEBI/IMD/CIR No. 12/118340/08 dated February 26, 2008.

[266] SEBI Circular No. SEBI/IMD/CIR No. 12/ 118340/08 dated February 26, 2008.

13.9.1 All statements made and facts reported in sales literature of a scheme should be substantiated with the disclosures made in the SID & SAI.[267]

13.9.2 Sales Literature containing information on performance of schemes must adhere to the 'performance advertisement' guidelines.

13.10 Use of Rankings in Advertisements and Sales Literature[268]

13.10.1 Definition of "Ranking Entity":

13.10.1.1 For purposes of these Guidelines, the term "Ranking Entity" refers to an entity that:

a. Provides general information about AMC(s) or Mutual Funds to the public; and

b. Is independent of the AMC(s) or Mutual Fund and its affiliates, and

c. Whose services have not been procured by the AMC(s) or Mutual Fund or any of its affiliates to assign a ranking to the AMC(s) or Mutual Fund.

13.10.2 No AMC(s) or Mutual Fund shall use rankings except those developed and produced by entities meeting the "Ranking Entity" criteria detailed above and which conform to these guidelines.

13.10.3 Required Disclosures:

[267] SEBI Circular No. MFD/CIR/4/51/2000 dated June 5, 2000.

[268] SEBI Circular No. MFD/CIR/4/51/2000 dated June 5, 2000.

13.10.3.1 Headlines/Prominent Statements:

a. A headline or other prominent statement must not state or imply that an AMC(s) and/or Mutual Fund is the best performer in a category unless it is actually ranked first in the category.

b. Prominent disclosure of the AMC(s)/Mutual Fund's ranking, the total number of AMC(s)/Mutual Funds in the category, the name of the category and that the ranking is based upon category created by the AMC/ MF, and the time period on which the ranking is based (i.e., the length of the period and the ending date; or, the first day of the period and the ending date), shall appear in close proximity to any headline or other prominent statement that refers to a ranking.

13.10.3.2 All advertisements and Sales Literature containing an AMC(s)/Mutual Fund ranking must disclose, with respect to the ranking:

a. The name of the category (e.g. income/growth).
b. The number of AMC(s)/Mutual Funds in the category.
c. The name of the Ranking Entity.
d. The length of the period and the ending date, or the first day of the period and the ending date.
e. Criteria on which the ranking is based.
f. For schemes assessing front-end sales loads, whether the ranking takes into account sales charge.
g. In case the ranking is for a period where fees/expenses have been waived and the waiver or advancement had a material effect on the yield for that period, the same should be disclosed in the advertisement.[269]

[269] SEBI Circular No. SEBI / IMD / CIR No 14 / 187175/ 2009 dated December 15,2009

h. The publisher of the ranking data.

13.10.3.2 The above disclosures must be set forth prominently in the body of the advertisement and/or Sales Literature.

13.10.3.4 If the ranking consists of a symbol (for e.g., a star system) rather than a number, the advertisement or Sales Literature must disclose the meaning of the symbol (for e.g., a four-star ranking indicates that the fund is in the top 30% of all Mutual Fund schemes).

13.10.3.5All advertisements and/ or Sales Literature containing rankings must disclose prominently in the main body of such communication that past performance is not a guarantee of future results.

13.10.4 Time Periods:

13.10.4.1All ranking set forth in an advertisement and/ or Sales Literature must be current to the most recent calendar quarter ended, in case of advertising prior to the submission for publication or in case of Sales Literature prior to use.

13.10.4.2 Except for Money Market Mutual Funds:

a. Advertisements and/ or Sales Literature must not use rankings based on yield for a period of less than one year.

b. A ranking based on compounded annualized yield must be based on rankings supplied by the same Ranking Entity, relating to the same category and the same time period and based on returns for

1. One year period for scheme in existence for at least one year;
2. One and five year periods for schemes in existence for at least five years, and
3. One, five and ten year periods for scheme in existence for at least ten years.

provided that, if rankings for such one, five and ten year time periods are not published by the Ranking Entity, then rankings representing short, medium and long term performance must be provided in place of rankings for the required time periods.

13.10.5 Categories:

13.10.5.1 The choice of category (including a subcategory) on which the rankings are based must be such that it provides a sound basis for evaluating the performance of the Mutual Fund.

13.10.5.2 Subject to the standards mentioned below, a ranking must be based only on

a. Published category or subcategory created by a Ranking Entity; or

b. Category or subcategory created by AMC(s)/ Mutual Fund which is based on the performance measurements prescribed by a Ranking Entity. In such cases, the advertisement and/ or Sales Literature shall prominently disclose

1. The fact that the ranking category has been created by the AMC/Mutual Fund.
2. The number of schemes in the category.
3. The basis for selecting the category and
4. The name of the Ranking Entity that has developed and/or prescribed the criteria on which the ranking is based.

13.10.5.3 When the ranking is based on a subcategory, the advertisements and/ or Sales Literature shall disclose the name of the main category, the ranking and the number of schemes in the main category. This requirement does not apply if:

a. The subcategory is based solely on the investment objectives of the schemes included and

b. The subcategory is created by a Ranking Entity.

This disclosure may be included in a footnote.

13.10.5.4 The advertisements and/or Sales Literature must not use any category or subcategory that is based upon the asset size of the AMC or Mutual Fund, whether created by the Ranking Entity or not.

13.10.6 Multiple class or Two-Tier Funds:

13.10.6.1 Rankings for more than one class of AMC(s)/Mutual Fund schemes with the same portfolio must be accompanied by prominent disclosure of the fact that the scheme or class of schemes have a common portfolio.

13.11 Indicative portfolios and yields in mutual funds schemes[270]

13.11.1 Mutual Funds shall not offer any indicative portfolio and indicative yield. No communication regarding the same in any manner whatsoever, shall be issued by any Mutual Fund or distributors of its products. The compliance of the same shall be monitored by the AMC and Trustees and reported in their respective reports to SEBI.

13.12 Disclosure of risk factors in the advertisements[271]

13.12.1 Regarding disclosure of risk factors in the advertisements by the mutual funds as mentioned Regulations[272], it is clarified that :

[270] SEBI Circular No. IMD/CIR No. 14/1510/2009 dated January 19, 2009
[271] SEBI Circular No IIMARP/MF/CIR/01/294/98 dated February 4,1998

13.12.1.1 All advertisements announcing the launch of a scheme and those which solicit subscription to the scheme shall disclose all the risk factors as required by the advertisement code.

13.12.1.2 All advertisements containing performance information, advertising yield/return etc. shall also disclose all the risk factors.

13.12.1.3 Any advertisement which discloses only the latest NAV, sale and/or repurchase price without any reference to the corresponding past figures may not disclose all the risk factors. However, it shall include a statement that 'investors are advised to read the offer document before investing in the scheme'.

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[272] Clauses 10, 13 and 14 of the Advertisement Code of SEBI (Mutual Funds) Regulations, 1996

CHAPTER 14

INVESTOR RIGHTS& OBLIGATIONS

PART I – INVESTOR RIGHTS

14.1 Payment of interest for delay in dispatch of redemption and/or repurchase proceeds and/or dividend[273]

14.1.1 In the event of failure to dispatch:

a. Redemption or repurchase proceeds within 10 working days from the date of receipt of such requests and/ or
b. Dividend within the stipulated 30 day period[274],

14.1.2 The AMC(s) shall be liable to pay interest @ 15 per cent per annum to the unit holders.[275] AMC(s) must ensure that the interest amount due for the period of delay in dispatch of repurchase or redemption and/or dividend is added to the proceeds when such payments are made to the investors. Such interest shall be borne by the AMC(s).

14.1.3 Details of such payments shall be sent to the Board along with the CTR(s).[276] Investors shall also be informed about the rate and amount of interest paid to them. Non compliance with these directions may invite action under the Mutual Funds Regulations.

14.2 Unclaimed Redemption Amount[277]

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[273] SEBI Circular No. SEBI/MFD/CIR/2/266/2000 dated May 19, 2000.

[274] SEBI Circular No. SEBI / IMD / CIR No 14 / 187175/ 2009 dated December 15,2009

[275]Regulation 53(c) of the Mutual Fund Regulations.

[276] For CTR format please refer to chapter on Formats
[277]SEBI Circular No. MFD/CIR/9/120/2000 dated November 24, 2000

14.2.1 Unclaimed redemption and dividend amounts may be deployed by Mutual Funds in Call Money Market or Money Market instruments, as may be permitted by RBI from time to time.

14.2.2 Investors claiming these amounts within three years from the due date shall be paid at the prevailing NAV. At the end of three years, the amount can be transferred to a pool account and investors can claim the amount at the NAV prevailing at the end of the third year.

14.2.3 Income earned on such funds can be used for the purpose of investor education.

14.2.4 The AMC shall make a continuous effort to remind the investors through letters to take their unclaimed amounts.

14.2.5 The investment management and advisory fee charged by the AMC for managing unclaimed amounts shall not exceed 50 basis points.

14.2.6 Disclosures on above provisions shall be made in the SAI /SID. Disclosure on the unclaimed amounts and the number of such investors for each scheme shall be made in the Annual Report also.[278]

14.3 Dispatch of Statement of Accounts[279]

14.3.1 Mutual Funds shall dispatch Statement of Accounts within 30 days from the closure of the NFO. AMC(s) may also start dispatching the Statement of Accounts once the minimum subscription amount

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[278] Please refer to Schedule XI of SEBI (Mutual Funds) Regulations, 1996

[279] SEBI Circular No. MFD/CIR/9/120/2000 dated November 24, 2000, SEBI Circular No. IMD/CIR/12/80083/2006 dated November 20, 2006

specified in the SID is received, even before the closure of the NFO.[280]

14.3.2 Systematic Investment Plan (SIP) or Systematic Transfer Plan (STP) or Systematic Withdrawal Plan (SWP)

a. Mutual Funds may dispatch the Statement of Accounts to the unit holders under SIP or STP or SWP, once every quarter ending March, June, September and December within 10 working days of the end of the respective quarter. The first Statement of Accounts shall however be issued within 10 working days of the initial transaction.

b. Mutual funds shall also provide Statement of Accounts to unit holders within 5 working days, without any charges, if specific requests are received from the investors. Further, if so mandated, a soft copy of the Statement of Accounts shall be e-mailed to the unit holders on a monthly basis.

14.3.3 Dormant Accountholders

14.3.3.1 Mutual Funds shall also provide Statement of Accounts to those unit holders who have not transacted during the last six months prior to the date of generation of the Statement of Accounts. In such cases, the Statement of Accounts may be issued along with the scheme's Portfolio Statement or Annual Report and should reflect the last closing balance and value of the units prior to the date of generation of the Statement of Accounts. Further, if so mandated, a soft copy of the Statement of Accounts shall be e-mailed to the unit holders instead of a physical statement.

[280] SEBI Circular No. MFD/CIR/9/120/2000 dated November 24, 2000.

14.4 AMC's Annual Reports for unitholders [281]

14.4.1 The annual report containing accounts of the AMCs should be displayed on the website of Mutual Fund. It should also be mentioned in the Annual Report of Mutual Funds schemes that the unitholders, if they so desire may request for the Annual Report of the AMC.

14.5 Distribution of Proceeds realized from illiquid securities/ NPAs [282]

14.5.1 Some of the investments made by Mutual Funds may become non-performing assets (NPAs) or illiquid at the time of maturity/winding up of the scheme(s). In due course of time i.e. after the maturity/ winding up of the scheme(s), these NPAs and illiquid securities may be realized by the Mutual Funds. Mutual Funds shall distribute such amounts to the old investors if such amounts are substantial and realized within two years. If the amounts realized are not substantial or are realized after two years, the same may be transferred to the Investor Education Fund maintained by each Mutual Fund. The decision as to the determination of substantial amount shall be taken by the trustees of mutual funds after considering the relevant factors.

14.6 Change of Mutual Fund Distributor

14.6.1 Incase an investor wishes to change his distributor or wishes to go direct, Mutual Funds/AMC's shall ensure compliance with the instruction of the investor informing his desire to change his distributor and / or go direct,

[281] SEBI Circular No. MFD/CIR/9/120/2000 dated November 24, 2000
[282] SEBI Circular No. MFD/CIR/05/432/2002 dated June 20, 2002.

without compelling that investor to obtain a ‘No Objection Certificate’ from the existing distributor.[283]

283 SEBI Circular No -SEBI/IMD/CIR No./ 13/187052 /2009 December 11,2009

PART II – INVESTOR'S OBLIGATIONS

14.7 Mandatory mentioning of PAN Number[284]

14.7.1 For, the requirement of mentioning PAN Number by investors of mutual fund schemes, the applicable SEBI guidelines may be referred[285]

14.8 Mandatory mentioning of Bank Account by Investors[286]

14.8.1 It shall be mandatory for the investors of the Mutual Funds schemes to mention their bank account numbers in their applications/request for redemption. For this purposes Mutual Funds shall provide space in applications and redemption request forms.

[284] SEBI Circular No. MRD/DoP/Cir-05/2007 dated April 27, 2007, SEBI Circular No. MRD/DoP/Cir-08/2007 dated June 25, 2007, SEBI Circular No. MRD/DoP/MF/Cir-08/2008 dated April 3, 2008.

[285] SEBI Circular No. MRD/DoP/MF/Cir-08/2008 dated April 3, 2008.

[286] SEBI Circular No. IIMARP/MF/CIR/07/826/98 dated April 15, 1998.

PART III– INVESTOR EDUCATION

14.9 SEBI Investors Education Programme – Investments in Mutual Funds [287]

14.9.1 Board has prepared a brochure in question-answer format explaining the fundamental issues pertaining to mutual funds. The same is enclosed at **Annexure 5**. The same is also available at our website www.sebi.gov.in under the "Mutual Funds" section.

14.9.2 AMCs are advised to circulate copies of the brochure among their distributors and agents (including brokers, banks, post offices) and the investors.

14.9.3 AMCs may publish the same as small booklets. In such a case, while the booklets must bear SEBI name and logo, AMC may give their name as publisher.This may also be displayed prominently on their web sites

14.9.4 AMFI may consider including the brochure as a part of study material for their training programmes for investors and for their certification programme conducted for agents and distributors.

14.9.5 Board may be kept informed about the steps taken by the AMCs in this regard from time to time.

[287] SEBI Cir No. MFD/CIR NO -13/370/02 dated January 16,2002

CHAPTER 15

CERTIFICATION AND REGISTRATION OF INTERMEDIARIES[288, 289]

15.1 No Mutual Fund shall deal with any intermediary (i.e. distributors, agents, brokers, sub brokers or called by any other name, whether individuals or belonging to any other organization structure) in relation to selling and marketing of Mutual Fund units unless they have cleared the certification examination conducted by AMFI.

15.2 No Mutual Fund shall engage/employ employee(s) interacting with investors (i.e. those working in investors relations, call centers, employees engaged in sales and marketing etc) unless they have cleared the certification examination conducted by AMFI.

15.3 Further, such intermediaries and employees shall also adhere to the Guidelines specified by the Board and AMFI.[290]

15.4 Code of Conduct:

15.4.1 Mutual Funds are required to monitor the activities of their distributors, agents, brokers to ensure that they do not indulge in any malpractice or unethical practice while selling or marketing Mutual Funds units. Any non compliance with the Mutual Funds

[288] SEBI Circular No. MFD/CIR No.10/310/01 dated September 25, 2001, SEBI Circular No. MFD/CIR/20/23230/2002 dated November 28, 2002, SEBI Circular No. SEBI/MFD/CIR No.01/6693/03 dated April 3, 2003, SEBI Circular No. SEBI/IMD/CIR No.2/254/04 dated February 4, 2004, SEBI Circular No. MFD/CIR/06/210/2002 dated June 26, 2002.

[289] Exemption for Senior Citizens : Senior citizens with experience in distributing Mutual Funds units are exempt from the mandatory certification examination if they have completed 50 years of age and have experience of at least 5 years as on September 30, 2003.289 They are also required to follow the guidelines prescribed by the Board and AMFI. They had to attend a mutual fund training programme and a certificate to that effect endorsed by a mutual fund should be submitted to AMFI.

[290] SEBI Circular No. MFD/CIR No.10/310/01 dated September 25, 2001, SEBI Circular No. MFD/CIR/20/23230/2002 dated November 28, 2002.

Regulations and Guidelines pertaining to Mutual Funds especially guidelines on advertisements and/ or sales literature and/or Code of Conduct shall be reported in the periodic meetings of the Board of the AMC and the Trustee(s) and shall also be reported to the Board by the AMC(s) in their CTR(s) and by the Trustees in their Half Yearly Reports.

15.4.2 AMFI has prescribed a Code of Conduct for Mutual Fund intermediaries enclosed herewith as **Annexure 1** [291] All intermediaries shall follow the Code of Conduct strictly and not indulge in any practice contravening it directly or indirectly.

15.4.3 Non compliance with the Code of Conduct shall be reported by the Mutual Funds to the Board and AMFI. Further, no Mutual Fund shall deal with intermediaries contravening the prescribed Code of Conduct.

15.5 Empanellment of Intermediaries by Mutual Funds

15.5.1 Empanelment of intermediaries by Mutual Funds, payment of commissions, brokerage and/or sub-brokerage etc. shall be in accordance with parameters and guidelines specified by the Board and AMFI from time to time. Mutual Funds shall monitor the compliance of these guidelines and Code of Conduct by their intermediaries in terms of business done across all Mutual Funds. In case of non-compliance, Mutual Funds shall suspend further business and payment of commissions, etc. until full compliance by the empanelled intermediary.

[291] Refer annexure and reports for details on code of conduct

CHAPTER 16

TRANSACTION IN MUTUAL FUNDS UNITS

16.1 Maintenance of documents [292]

16.1.1 As per the requirements specified by Board in respect of “Anti Money Laundering (AML) Standards/Combating Financing of Terrorism (CFT) / Obligations of Securities Market Intermediaries under Prevention of Money Laundering Act, 2002 and Rules framed there-under”[293], maintenance of all documentation pertaining to the unitholders/ investors is the responsibility of the AMC.

16.1.2 Accordingly, vide SEBI Circular No - SEBI/IMD/CIR No.12 /186868 /2009 dated December 11, 2009, AMCs were advised to confirm whether all the investor related documents were maintained/ available with the AMC. If not, and to the extent of and relating to such investor accounts/folios where investor related documentation was incomplete/inadequate/not available or was stated to be maintained by the distributors, then the Trustees were advised to ensure the following:

16.1.2.1 No further payment of any commissions, fees and / or payments in any other mode should be made to such distributors till full compliance/ completion of the steps enumerated herein.

16.1.2.2 Take immediate steps to obtain all investor/ unit holders documents in terms of the AML/ CFT, including KYC documents / PoA as applicable

16.1.2.3 Take immediate steps to obtain all supporting documents in respect of the past transactions.

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[292] SEBI Circular No - SEBI/IMD/CIR No.12 /186868 /2009 dated December 11,2009
[293] SEBI Circular No ISD/AML/CIR-1/2008 dated December 19, 2008

16.1.2.4 On a one time basis, send statement of holdings and all transactions since inception of that folio in duplicate to the investor and seek confirmation from the unit holders on the duplicate copy.

16.1.2.5 Set up a separate customer services mechanism to handle/ address queries and grievance of the above mentioned unitholders.

16.1.3 Pending completion of documentation, exercise great care and be satisfied of investor bonafides before authorizing any transaction, including redemption, on such accounts / folios.

16.1.4 The Trustees were required forthwith to confirm to Board that the steps had been taken to address the above and also send a status to the Board as and when process was completed to their satisfaction.

16.2_Facilitating transactions in Mutual Fund schemes through the Stock Exchange infrastructure[294]

16.2.1 Stock Exchange terminals can be used for facilitating transactions in mutual fund schemes. The Stock Exchange mechanism would also extend the present convenience available to secondary market investors to mutual fund investors.

16.2.2 Units of mutual fund schemes may be permitted to be transacted through registered stock brokers of recognized stock exchanges and such stock brokers will be eligible to be considered as official points of acceptance.[295]

16.2.3 The respective stock exchange would provide detailed operating guidelines to facilitate the same.

[294] SEBI Circular No - SEBI /IMD / CIR No.11/183204/ 2009 dated November 13,2009

[295] SEBI Circular No. SEBI/IMD/CIR No.11/78450/06 dated October 11, 2006

16.2.4 In this regard, Mutual Funds/AMC are advised that :

16.2.4.1 **Empanelment and monitoring of Code of Conduct for brokers acting as mutual fund intermediaries**-

a. The stock brokers intending to extend the transaction in Mutual Funds through stock exchange mechanism shall be required to comply with the requirements of passing the AMFI certification examination[296].All such stock brokers would then be considered as empanelled distributors with mutual fund/AMC.

b. These stock brokers shall also comply with Code of Conduct[297] for intermediaries of Mutual Funds, and applicable SEBI guidelines[298]., applicable to intermediaries engaged in selling and marketing of mutual fund units.

c. It is clarified that, stock exchanges shall monitor the compliance of the code of conduct specified regarding empanelment of intermediaries by mutual funds. [299]

16.2.4.2 **Time stamping**

a. Time stamping as evidenced by confirmation slip given by stock exchange mechanism to be considered sufficient compliance with clause for cut–off timing for liquid scheme and plans, cut-off timing for other schemes and plans and time stamping provisons mandated by Board[300]

[296] Please refer Chapter 15 on Certification and Registration of Mutual Funds intermediaries
[297] For Code of Conduct , please refer to Annexure I
[298] Please refer Chapter 15 on Certification and Regiatration of Mutual Funds intermediaries
[299]Please refer Chapter 15 on Certification and Regiatration of Mutual Funds intermediaries

[300] Please refer to Chapter 8 – Net Asset Value for details on cut off timing provisions

16.2.4.3 **Statement of Account**

a. Where investor desires to hold units in dematerialised form, demat statement given by depository participant would be deemed to be adequate compliance with requirements for account statement prescribed by SEBI [301]..

16.2.4.4 **Investor grievance mechanism**

a. Stock exchanges shall provide for investor grievance handling mechanism to the extent they relate to disputes between brokers and their client.

16.2.4.5 **Dematerialization of existing units held by investors**

a. In case investors desire to convert their existing physical units (represented by statement of account) into dematerialized form, mutual funds / AMCs shall take such steps in coordination with Registrar and Transfer Agents, Depositories and Depository participants (DPs) to facilitate the same.

16.2.4.6 **Know your client (KYC).**

a. Where investor desires to hold units in dematerialised form, the KYC performed by DP in terms of SEBI requirements [302] would be considered compliance with applicable requirements specified in this regard[303] by Mutual Funds /AMCs.

16.2.5 Stock exchanges and mutual funds/AMCs, based on the experience gained may further improve the mechanism in the interest of investors.

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[301] For details on dispatch of statement of accountts. refer to Chapter 14- Investor Rights and services

[302] SEBI Circular No - MRD/DoP/Dep/Cir-29/2004 dated August 24, 2004

303 SEBI Circular No - ISD/AML/CIR-1/2008 dated December 19, 2008

Necessary clarifications, if any, would be issued at appropriate time by SEBI in this regard.