



CIRCULAR

SEBI/HO/IMD/DF2/CIR/P/2021/024

March 04, 2021

All Mutual Funds (MFs)/  
Asset Management Companies (AMCs)/  
Trustee Companies/ Board of Trustees of Mutual Funds/  
Association of Mutual Funds in India (AMFI)

Sir / Madam,

**Subject: Circular on Mutual Funds**

- A. A regulatory revamp exercise of SEBI (Mutual Funds) Regulations, 1996 (hereinafter called as “MF Regulations”) and various circulars issued thereunder was undertaken. In this regard, Mutual Fund Advisory Committee (MFAC) after deliberations on the suggestions of the Working Group constituted for this purpose has provided its recommendations on various proposals.
- B. The proposals relating to amendments to MF Regulations have been notified vide [Gazette notification no. SEBI/LAD-NRO/GN/2021/08 dated February 04, 2021](#). These amendments to MF Regulations shall come into force on 30<sup>th</sup> day from the date of their publication in the Official Gazette. Copy of the same is enclosed for reference.
- C. With respect to proposals relating to modifications in various circulars issued under MF Regulations, it has been decided to implement the following:

**1. Gross Exposure Limits**

- 1.1. Provisions of various circulars with regard to cumulative gross exposure limit for mutual fund schemes have been modified as under:

*“The cumulative gross exposure through equity, debt, derivative positions (including commodity and fixed income derivatives), repo transactions and credit default swaps in corporate debt securities, Real Estate Investment Trusts (REITs), Infrastructure Investment Trusts (InvITs), other permitted securities/assets and such other securities/assets as may be permitted by the Board from time to time should not exceed 100% of the net assets of the scheme.”*



(References: paragraph-3 of SEBI Circular No. Cir/ IMD/ DF/ 11/ 2010 dated August 18, 2010, paragraph-3(b) of SEBI Circular No. CIR/IMD/DF/19/2011 dated November 11, 2011, paragraph-2(d) of SEBI Circular No. CIR/IMD/DF/23/2012 dated November 15, 2012, paragraph-4(v) of SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/65 dated May 21, 2019)

## **2. Investment Pattern**

**2.1.** In partial modification to SEBI Circular No.IIMARP/MF/CIR/01/294/98 dated February 4, 1998, the portion on “Investment pattern” in paragraph-2(a)(ii) shall be read as under:

*“Investment pattern - The tentative portfolio break-up of Equity, Debt, Money Market Instruments, other permitted securities and such other securities as may be permitted by the Board from time to time with minimum and maximum asset allocation, while retaining the option to alter the asset allocation for a short term period on defensive considerations.”*

## **3. Procedure for Change in Control of AMC**

The Guidance Letter dated January 28, 2003 on “Procedure for Change in the Controlling Interest of the Asset Management Company” stands deleted and the procedure for change in control of the AMC is given below:

### **3.1. Requirement of Regulations**

According to Regulation 22(e) of MF Regulations, no change in the control of the AMC, directly or indirectly, can be made unless the following conditions are complied with:

- i. prior approval of the trustees and the Board is obtained;
- ii. a written communication about the proposed change is sent to each unitholder (for those unitholders whose e-mail IDs are registered with the mutual funds, the communication can be sent through e-mail) and an advertisement is given in one English daily newspaper having nationwide circulation and in a newspaper published in the language of the region where the Head Office of the mutual fund is situated; and



- iii. the unitholders are given an option to exit on the prevailing Net Asset Value (NAV) without any exit load within a time period not less than 30 calendar days from the date of communication.

### **3.2. New Sponsor(s)**

In case the applicant proposing to take the control of an AMC is not an existing sponsor of a mutual fund registered with SEBI, it shall apply to the Board for approval of taking over control of an existing AMC under MF Regulations. The process for making such application is same as application for registration under MF Regulations. The entire procedure for registration as Mutual Fund is given on the SEBI website under the heading "How to get registered as a mutual fund" in the "Mutual Fund" section.

### **3.3. Undertakings by new Trustee(s)/Sponsor(s)**

In case of new sponsor(s) or in case of taking over of the schemes by an existing mutual fund, the undertakings on the following lines are required to be given to the Board and to the unitholders:

- i. Taking full responsibility of the management and the administration of the schemes including the matters relating to the reconciliation of accounts (as if the schemes had been floated by the new trustees on the date of taking over).
- ii. Assumption of the trusteeship of the assets and liabilities of the schemes including outstanding borrowings, unclaimed dividends and unclaimed redemptions, if any.
- iii. Assuming all responsibilities and obligations relating to the investor grievances, if any, in respect of the schemes taken over, in accordance with and pursuant to MF Regulations and various circulars issued thereunder.

### **3.4. Disclosures to Unitholders**

While seeking the approval of the Board for change in the control of the AMC, the mutual fund handing over the control to another person, should also file the draft letter / email to be sent to the unitholders along with draft advertisement to be published in the newspaper.



The draft letter / email to the unitholders should, *inter-alia*, include the following information –

- i. the activities of the new sponsor and its financial track record and performance as prescribed in the standard offer document;
- ii. In case of taking over of the schemes by an existing mutual fund registered with SEBI, the draft letter should also include the condensed financial information of all the schemes in the format prescribed in the standard offer document;
- iii. The amount of unclaimed redemption and dividend and also the procedure for claiming such amount by the unitholders.

### **3.5. Revision of all Standard Offer Documents**

The information given in all the offer documents of existing schemes shall be revised and updated pursuant to the change in control of the AMC / mutual fund. Such addendum shall also be filed with the Board, as required under MF Regulations and various circulars issued thereunder.

### **3.6. Other Situations**

In case of any other situation like indirect change in control of the AMC or indirect change in the promoters of the sponsor(s), which was beyond the control of the sponsor(s), etc., the mutual fund should provide the full details of the information to the Board for further course of action.

## **4. Go Green Initiatives**

**4.1.** The existing requirement of filing of the Monthly Cumulative Report (MCR) in physical mode in addition to providing the same through email in terms of SEBI Circular No. MF/CIR/ 07/ 404/2000 dated July 31, 2000 and paragraph 2 of SEBI Circular No. SEBI/IMD/CIR No 3/124444/08 dated April 30, 2008 stands deleted and the same shall be continued to be submitted by the AMC to the Board through email (to Email ID: mfddata@sebi.gov.in).

**4.2.** The format of Annual Statistical Report as provided vide SEBI Circular No. MFD/CIR/02/110/02 dated April 26, 2002 has been revised and is placed at



Annexure-I and the same shall be submitted to the Board through email only (to Email ID: mfddata@sebi.gov.in).

#### **4.3. AMC's Annual Reports for unitholders**

4.3.1. Paragraph 4 of SEBI Circular No. MFD/CIR/9/120/2000 dated November 24, 2000, has been modified as under:

*“The annual report containing accounts of the AMC should be displayed on the websites of the mutual funds immediately after approval in Annual General Meetings within a period of four months, from the date of closing of the financial year. It should also be mentioned in the annual report of mutual fund schemes that the unitholders, if they so desire, may request for the annual report of the AMC. Further, the annual report of AMCs shall be displayed on their websites in machine readable format.”*

#### **5. Filing of Annual Information Return (AIR) by Mutual Funds**

5.1. Pursuant to issuance of CBDT guidelines & various circulars, the provisions of SEBI Circular No. IMD/CIR No.8/73580/06 dated August 4, 2006 on “Filing of Annual Information Return to be filed by Mutual Funds” stands deleted. However, mutual funds shall continue to comply with the following:

*“Mutual funds are required to submit the Annual Information Return (AIR) under section 285 BA of the Income Tax Act, and various guidelines notified by Central Board of Direct Taxes (CBDT). 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 through electronic medium to Income Tax Department giving PAN of the transacting parties in an Annual Information Return (AIR).”*

#### **6. Investment in securities by employees of AMC(s) and Trustees of Mutual Funds**

6.1. In partial modification to SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/124 dated November, 17, 2016:

i. Paragraph A (2) (iv) shall be read as under:



*“In the name of parent, sibling or child of the employee or of the spouse of such employee, any of whom is either dependent financially on such employee or spouse of employee, or consults such employee or spouse of employee in taking decisions relating to trading in securities.”*

- ii. With respect to paragraph D(1)(a) of Annexure A, it has been decided that the restriction on investment in privately placed equity shares of any company by employees of AMC and Trustees may be removed subject to there being no conflict with the interest of investors of the mutual fund and disclosure of such investments to the Compliance Officer immediately. Accordingly, paragraph D(1)(a) of Annexure A shall be read as under:

*“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 may participate in private placement of equity by any company subject to there being no conflict with the interest of investors of the mutual fund and disclosure of such investments to the Compliance Officer immediately.”*

**6.2.** The employees of AMC and Trustees may avail discretionary Portfolio Management Services (PMS) subject to compliance with all applicable SEBI Regulations and circulars. AMFI is advised to issue necessary guidelines including adequate safeguards in this regard in consultation with SEBI within 60 days from the date of this circular.

## **7. Advertisement**

**7.1.** In partial modification to SEBI Circular No. Cir/IMD/DF/6/2012 dated February 28, 2012:

- i. First point of paragraph C (2) shall be read as under:



*“While advertising pay out of dividends, all advertisements shall disclose the dividends declared or paid 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.*

*Further, for pay out of dividends at maturity of closed-ended scheme(s)/ at completion of the interval period of interval scheme(s), AMC shall advertise that “the entire distributable surplus at the time of maturity or at the completion of the interval period shall be distributed.””*

- ii. Second Point of paragraph C(2) stands deleted.
- iii. Fourth point of paragraph C(2) shall be read as under:

*“In case of Overnight funds, Liquid funds and Money Market funds, 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, 15 days and 30 days provided it does not reflect an unrealistic or misleading picture of the performance or future performance of the scheme.”*

**7.2.** In Partial modification to SEBI Circular No. Cir/IMD/DF/23/2017 dated March 15, 2017:

7.2.1. The following portion of paragraph A(4)(a) stands deleted :

*“3. When a scheme has been in existence for more than 1 year but less than 3 years or 5 years, the same shall be mentioned as a footnote in the performance advertisement of the Mutual Fund scheme.”*

7.2.2. Paragraph A(4)(b) shall be read as under:

*“Where the scheme has been in existence for less than six months past performance shall not be provided. Further, if the scheme has been in existence for more than six months but less than one year, then simple annualized growth rate of the scheme for the past 6 months from the last day of month-end preceding the date of advertisement shall be provided.”*



7.3. In partial modification of SEBI Circular No. Cir/ IMD/ DF/13/ 2011 dated August 22, 2011, paragraph C (5) shall be read as under:

*“For the sake of standardization, a similar return in INR and by way of CAGR must be shown for the following apart from the scheme benchmarks:*

<b>S.No.</b>	<b>Category of Schemes</b>	<b>Additional Benchmark</b>
1.	All Equity Schemes	Sensex/Nifty
2.	All Debt Schemes having duration / maturity upto 1 year and Arbitrage Funds	1 year T-Bill
3.	All Debt Schemes which are not covered in Point 2	10 year dated GOI Security
4.	Conservative Hybrid Fund	10 year dated GOI Security
5.	Balanced Hybrid Fund / Aggressive Hybrid Fund / Dynamic Asset Allocation or Balanced Advantage / Multi Asset Allocation	Sensex / Nifty
6.	Equity Savings	10 year dated GOI Security
7.	Retirement Fund / Children's Fund	Sensex/Nifty
8.	Index Funds / ETFs & FoFs (Overseas/ Domestic)	Appropriate benchmark based on the underlying asset allocation as per above

*These disclosures shall form part of the Statement of Additional Information and all advertisements of Mutual Funds.”*

## 8. Disclosure of performance of mutual fund schemes

8.1. SEBI vide various circulars under MF Regulations has prescribed to disclose performance of mutual fund schemes since inception. In this regard, it is clarified that such disclosure of performance shall be made since the date of allotment of units in the scheme.

## 9. Undertaking from Trustees for new Scheme Offer Document

9.1. In partial modification to SEBI Circular No. SEBI/IMD/CIR No.5/70559/06 dated June 30, 2006, it has been decided that the certification from the trustees





shall also not be applicable to Interval Schemes besides Fixed Maturity Plans and Close Ended Schemes.

## 10. Key Personnel of the AMC

10.1. For the purpose of applicability of MF Regulations and various circulars issued thereunder, the term “Key personnel” is defined as under:

*“Chief Executive Officer (CEO), Chief Investment Officer (CIO), Chief Risk Officer (CRO), Chief Information Security Officer (CISO), Chief Operation Officer (COO), Fund Manager(s), Compliance Officer, Sales Head, Investor Relation Officer(s) (IRO), heads of other departments, Dealer(s) of the AMC and such other persons as deemed fit and identified as such by the AMC and the Trustees.”*

10.2. The term “Key Managerial Personnel” mentioned in SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/42 dated March 18, 2016 shall be replaced with the term “Key Personnel”.

## 11. Updation of Scheme Information Document (SID) and Key Information Memorandum (KIM)

11.1. In partial modification to SEBI Circular No. SEBI/IMD/CIR No.5/ 126096/08 dated May 23, 2008, paragraph 5 on “The procedure for updation of SID and KIM” shall be read as under:

*“The procedure for updation of SID and KIM shall be as follows:*

- i. For the open ended and interval schemes, the SID shall be updated within next six months from the end of the 1st half or 2nd half of the financial year in which schemes were launched. Subsequently, SID should be updated once in six months at the end of September and March.*
- ii. The procedure to be followed in case of changes to the open ended and interval scheme shall be as under:*
  - a. In case of change in fundamental attributes in terms of Regulation 18 (15A):*





## 12. Disclosures of Votes Cast by Mutual Funds

12.1. In partial modification of the SEBI Circular No. CIR/IMD/DF/05/2014 dated March 24, 2014, paragraph B(1)(c) shall be read as under:

*“AMCs shall be required to make disclosure of votes cast on their website (in machine readable spreadsheet format) on a quarterly basis, within 10 working days from the end of the quarter as per the format enclosed. A detailed report in this regard along with summary thereof shall also be disclosed on their website. The format for disclosure of vote cast by Mutual Funds in respect of resolutions passed in general meetings of the investee companies and the format for presenting summary of votes cast by Mutual Funds is placed as Annexure B. Further, AMCs shall provide the web link in their annual reports regarding the disclosure of voting details.”*

## 13. Dividend Distribution Procedure for Mutual Funds

13.1. In partial modification of SEBI Circular No. SEBI/IMD/CIR No.1/64057/06 dated April 4, 2006, the following has been decided:

- i. Paragraph II (c) under the heading “*Unlisted Schemes / Plans*” shall be read as under:

*“Within one calendar day of the decision by the trustees, AMC shall issue notice to the public communicating the decision including the record date. The record date shall be 5 calendar days from the date of publication in at least one English newspaper or in a newspaper published in the language of the region where the Head Office of the mutual fund is situated, whichever is issued earlier.”*

13.2. With respect to payment of interest in the event of failure of despatch of dividend payments within the stipulated time period in terms of Regulation 53(a) of MF Regulations, it is clarified that the interest for the delayed payment of dividend shall be calculated from the record date.

13.3. With respect to declaration of dividends upto monthly frequency, it has been decided that trustees can delegate to the officials of AMC to declare and fix the record date as well as decide the quantum of dividend, subject to the following:

- i. Record date is specified in the offer document and the same is adhered to.



- ii. Such delegation to AMC officials shall mandatorily include CEO of AMC and making him responsible for such declaration of dividends, subject to adhering to the policy framework as approved by Trustees.
- iii. The policy shall specify appropriate parameters or factors (for example Growth in NAV from the last dividend declared, or availability of adequate distributable surplus, or minimum reserves to be maintained, etc.) to be considered prior to deciding the quantum.
- iv. Actual dividend declared to be ratified by the Trustees in its immediately following Board meeting.”

#### **14. Postal Ballot**

**14.1.** As per the existing provisions of MF Regulations and various circulars issued thereunder, wherever consent or approval of unitholders is required, an option should be given to unitholders. In this regard, it is clarified that the same can also be done through Postal Ballot mechanism.

**14.2.** For this purpose, voting through Postal Ballot shall mean voting by post or through any electronic mode.

#### **15. Exit Period for Unitholders**

**15.1.** In order to bring uniformity, wherever exit option is required to be given to unitholders under MF Regulations and circulars issued thereunder, unitholders shall be given a time period of atleast 30 calendar days for the purpose of exercising the exit option.

#### **16. Comments from SEBI for change in Fundamental Attribute**

**16.1.** In addition to the conditions specified under Regulation 18 (15A) for bringing change in the fundamental attributes of any scheme, it has been decided that trustees shall take comments of the Board before bringing such change(s).

#### **17. Rajiv Gandhi Equity Savings Scheme (RGESS)**

**17.1.** Since, Rajiv Gandhi Equity Savings Scheme (RGESS) has been phased out from the assessment year 2018-19, the references of RGESS have become



redundant from all places in MF Regulations and circulars issued thereunder and therefore all provisions related to RGESS issued through various circulars stands deleted.

**17.2.** However, for existing RGESS, if any, the rules and regulations pertaining to RGESS prior to deletion of the provisions as mentioned at paragraph 17.1 above shall be applicable.

## **18. Modes of Payments and Despatch**

**18.1.** AMCs may also use instruments or payment channels such as RTGS, NEFT, IMPS, direct credit, etc. or any other mode allowed by Reserve Bank of India from time to time, for payments including refunds to unitholders in addition to the cheque, demand draft or dividend warrants.

**18.2.** Further, AMCs may also use modes of despatch such as speed post, courier etc. for payments including refunds to unitholders in addition to the registered post with acknowledgement due.

## **19. Reporting the quarterly details of transactions of dealing in securities by Trustees**

**19.1.** As per Regulation 18(11) of MF Regulations, trustees shall file the details of their transactions of dealing in securities on quarterly basis. In this regard, it has been decided that the same shall be filed by the trustees within one month from the end of respective quarters (March, June, September and December).

**19.2.** In partial modification to SEBI Circular No. MFD/CIR/09/014/2000 dated January 5, 2000, paragraph II (5) shall be read as under:

*“For the purpose of reporting of transactions of dealing in securities by the trustees under Regulation 18(11) of MF Regulations, only those transactions which exceed the value of INR Five lakhs are required to be reported.”*

## **20. Timelines for issuance of Consolidated Account Statement (CAS)**

**20.1.** As per Regulation 36(4) of MF Regulations, the timelines for issuance of monthly and half-yearly CAS have to be prescribed. In this regard, it has been decided that:



20.1.1. The AMC shall ensure that the CAS for each calendar month is issued on or before fifteenth day of the succeeding month.

20.1.2. The AMC shall ensure that the CAS for half year is issued on or before twenty first day of the succeeding month.

## **21. Investment in Non-Convertible Preference Shares (NCPSs)**

**21.1.** It has been decided that NCPSs shall be treated as debt instruments and hence investment restrictions as applicable on debt instruments as specified in MF Regulations & circulars issued thereunder shall also be applicable to NCPSs.

## **22. Change in Nomenclatures**

It has been decided that in all relevant circulars issued under MF Regulations:

**22.1.** The term “Service tax” shall be replaced with the term “Goods & Service Tax”.

**22.2.** The term “Affiliate” shall be replaced with the term “Associate”.

**22.3.** The term “Collateralized Borrowing and Lending Obligations (CBLO)” shall be replaced with the term “triparty repo on Government securities or treasury bills”.

## **23. Auditor of a Mutual Fund**

**23.1.** In partial modification to the SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2017/125 dated November 30, 2017, paragraph B (1) shall be read as under:

*“The auditor of a mutual fund, appointed in terms of Regulation 55 (1) of MF Regulations shall be a firm, including a limited liability partnership, constituted under the LLP Act, 2008.”*

## **24. Applicability of Exit Load**

**24.1.** It is clarified that the provision of Regulation 49(3) of MF Regulations applies on all open-ended mutual fund schemes wherever exit load is applicable.



**D. Applicability**

The circular shall come into force from the effective date of the amendments to MF Regulations as mentioned in paragraph B above.

- E.** This circular is issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, read with the provisions of Regulation 77 of SEBI (Mutual Funds) Regulations, 1996, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

**Hruda Ranjan Sahoo**  
**Deputy General Manager**  
Tel no.: 022-26449586  
Email: hrsahoo@sebi.gov.in



**Annexure I**

**ANNUAL STATISTICAL REPORT (ASR)**

This report is to be submitted each financial year in order to reach SEBI latest by 30<sup>th</sup> of April.

NAME OF THE MUTUAL FUND: \_\_\_\_\_

Unitholding Pattern of Mutual Fund as on March 31, \_\_\_\_\_

<b>Category</b>	<b>Number of Folios</b>	<b>Net Asset Value</b>
<b>Individuals</b>		
<b>NRI/OCBs</b>		
<b>FPIs</b>		
<b>Corporate/Institutions/Others</b>		
<b>TOTAL</b>		

Note: Data is to be provided for all the schemes put together and not individual scheme-wise.