CHAPTER I

PRELIMINARY

Short title, application and commencement

1. (1) These regulations maybe called the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996.
(2) They shall come into force on the date of their publication in the Official Gazette.

Definitions

2. In these regulations, unless the context otherwise requires:—
   (a) “Act” means the Securities and Exchange Board of India Act, 1992 (15 of1992);
   (b) “advertisement” shall include all forms of communication issued by or on behalf of the asset management company/mutual fund that may influence investment decisions of any investor/prospective investors;
   (c) “associate” includes a person,—
      (i) who directly or indirectly, by himself ,or in combination with relatives ,exercises control over the asset management company or the trustee, as the case may be, or
      (ii) in respect of whom the asset management company or the trustee, directly or indirectly, by itself, or in combination with other persons exercises a control, or
      (iii) whose director, officer or employee is a director, officer or employee of the asset management company; “asset management company” means a company formed and registered under the companies
(d) “asset management company” means a company formed and registered under the Companies Act, 1956 (1 of 1956) and approved as such by the Board under sub regulation (2) of regulation 21;

(e) “broker” means a stock broker as defined in Securities and Exchange Board of India (Stock Brokers and Sub-brokers) Rules, 1992;

(ea) “capital protection oriented scheme” means a mutual fund scheme which is designated as such and, which endeavors to protect the capital invested therein through suitable orientation of its portfolio structure;

(f) “close-ended scheme” means any scheme of a mutual fund in which the period of maturity of the scheme is specified;

(g) “control” means,—

(i) in the case of a company any person or combination of persons who directly or indirectly own, control or hold shares carrying not less than 10% of the voting rights of such company; or

(ii) as between two companies, if the same person or combination of persons directly or indirectly, own, control or hold shares carrying not less than 10% of the voting rights of each of the two companies; or

(iii) majority of the directors of any company who are in a position to exercise control over the asset management company;

(h) “custodian” means a person who has been granted a certificate of registration to carry on the business of custodian of securities under the Securities and Exchange Board of India (Custodian of Securities) Regulations, 1996;

(i) “depository” means a body corporate as defined in the Depositories Act, 1996 (22 of 1996);

(j) “economic offence” means an offence to which the Economic Offences (Limitation of Prosecution) Act, 1974 (12 of 1974), applies for the time being;

(k) omitted

(l) “form” means any of the forms specified as such in the First Schedule;

(m) “fraud” for the purpose of these regulations has the same meaning as is assigned to it in section 17 of the Indian Contract Act, 1872 (9 of 1872);

(ma) “fund of funds scheme” means a mutual fund scheme that invests primarily in other schemes of the same mutual fund or other mutual funds;

(mb) “gold exchange traded fund scheme” shall mean a mutual fund scheme that invests primarily in gold or gold related instruments;
(mc) “gold related instrument” shall mean such instrument having gold as underlying, as may be specified by the Board from time to time;

(md) “goods” means the goods notified by the Central Government under clause (bc) of section 2 of the Securities Contracts (Regulation) Act, 1956 and forming the underlying of any commodity derivative;

(mm) “group” means a group as defined in clause (ef) of section 2 of the Monopolies and Restrictive Trade Practices Act, 1969 (54 of 1969);

(mn) “index fund scheme” means a mutual fund scheme that invests in securities in the same proportion as an index of securities;

(mo) “InvIT” or “Infrastructure Investment Trust” shall have the meaning assigned in clause (za) of sub-regulation (1) of regulation 2 of the Securities and Exchange Board of India (Infrastructure Investment Trusts) Regulations, 2014;

(n) “inspecting officer” means any person appointed as such by the Board under Chapter VIII;

(o) “money market instruments” includes commercial papers, commercial bills, treasury bills, Government securities having an unexpired maturity up to one year, call or notice money, certificate of deposit, usance bills, and any other like instruments as specified by the Reserve Bank of India from time to time;

(p) “money market mutual fund” means a scheme of a mutual fund which has been set up with the objective of investing exclusively in money market instruments;

(q) “mutual fund” means a fund established in the form of a trust to raise monies through the sale of units to the public or a section of the public under one or more schemes for investing in securities including money market instruments or gold or gold related instruments or real estate assets;

(r) “offer document” means any document by which a mutual fund invites public for subscription of units of a scheme;

(s) “open-ended scheme” means a scheme of a mutual fund which offers units for sale without specifying any duration for redemption;

(sa) “private placement” means any offer of units of a mutual fund scheme or invitation to subscribe such units to a select group of persons, by a mutual fund (other than by way of public offer) through issue of a placement memorandum and which is not being calculated to result, directly or indirectly in the units becoming available for subscription or purchase by persons other than those receiving the offer or invitation;

(sb) “REIT” or “Real Estate Investment Trust” shall have the meaning assigned in clause (zm) of sub-regulation 1 of regulation 2 of the Securities and Exchange Board of India (Real Estate Investment Trusts) Regulations, 2014;
(sc) “real estate mutual fund scheme” means a mutual fund scheme that invests directly or indirectly in real estate assets or other permissible assets in accordance with these regulations;
(t) “relative” means a person as defined in section 6 of the Companies Act, 1956 (1 of 1956);
(u) “scheme” means a scheme of a mutual fund launched under Chapter V;
(v) “schedule” means any of the schedules annexed to these regulations;
(w) “securities laws” means the Securities and Exchange Board of India Act, 1992 (15 of 1992), the Securities Contracts (Regulation) Act, 1956 (42 of 1956) and the Depositories Act, 1996 (22 of 1996), including their amendments and such other laws as may be enacted from time to time;
(x) “sponsor” means any person who, acting alone or in combination with another body corporate, establishes a mutual fund;
(y) “trustees” mean the Board of Trustees or the Trustee Company who hold the property of the Mutual Fund in trust for the benefit of the unit holders;
(z) “unit” means the interest of the unit holders in a scheme, which consists of each unit representing one undivided share in the assets of a scheme;
(z)(i) “unit holder” means a person holding unit in a scheme of a mutual fund.

CHAPTER II

REGISTRATION OF MUTUAL FUND

Application for registration

3. An application for registration of a mutual fund shall be made to the Board in Form A by the sponsor.

Application fee to accompany the application

4. Every application for registration under regulation 3 shall be accompanied by nonrefundable application fee as specified in the Second Schedule. Application to conform to the requirements

Application to conform to the requirements

5. An application, which is not complete in all respects shall be liable to be rejected:

Provided that, before rejecting any such application, the applicant shall be given an opportunity to complete such formalities within such time as may be specified by the Board.

Furnishing information

6. The Board may require the sponsor to furnish such further information or clarification as may be required by it.
Eligibility criteria

7. For the purpose of grant of a certificate of registration, the applicant has to fulfill the following, namely—

(a) the sponsor should have a sound track record and general reputation of fairness and integrity in all his business transactions.

Explanation: For the purposes of this clause “sound track record” shall mean the sponsor should—

(I) be carrying on business in financial services for a period of not less than five years; and
(II) the net worth is positive in all the immediately preceding five years; and
(III) the net worth in the immediately preceding year is more than the capital contribution of the sponsor in the asset management company; and
(IV) the sponsor has profits after providing for depreciation, interest and tax in three out of the immediately preceding five years, including the fifth year;

(aa) the applicant is a fit and proper person;

(b) in the case of an existing mutual fund, such fund is in the form of a trust and the trust deed has been approved by the Board;

(c) the sponsor has contributed or contributes at least 40% to the net worth of the asset management company:

Provided that any person who holds 40% or more of the net worth of an asset management company shall be deemed to be a sponsor and will be required to fulfill the eligibility criteria specified in these regulations;

(d) the sponsor or any of its directors or the principal officer to be employed by the mutual fund should not have been guilty of fraud or has not been convicted of an offence involving moral turpitude or has not been found guilty of any economic offence;

(e) appointment of trustees to act as trustees for the mutual fund in accordance with the provisions of the regulations;

(f) appointment of asset management company to manage the mutual fund and operate the scheme of such funds in accordance with the provisions of these regulations;

(g) appointment of custodian in order to keep custody of the securities or goods or gold and gold related instrument or other assets of the mutual fund held in terms of these regulations, and provide such other custodial services as may be authorised by the trustees.
Criteria for fit and proper person

7A. For the purpose of determining whether an applicant or the mutual fund is a fit and proper person the Board may take into account the criteria specified in Schedule II of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008.

Norms for Shareholding and Governance in Mutual Funds

7B. (1) No sponsor of a mutual fund, its associate or group company including the asset management company of the fund, through the schemes of the mutual fund or otherwise, individually or collectively, directly or indirectly, have –

(a) 10% or more of the share-holding or voting rights in the asset management company or the trustee company of any other mutual fund; or

(b) representation on the board of the asset management company or the trustee company of any other mutual fund.

(2) Any shareholder holding 10% or more of the share-holding or voting rights in the asset management company or the trustee company of a mutual fund, shall not have, directly or indirectly, -

(a) 10% or more of the share-holding or voting rights in the asset management company or the trustee company of any other mutual fund; or

(b) representation on the board of the asset management company or the trustee company of any other mutual fund.

(3) Any person not in conformity with the sub-regulations (1) and (2) of this regulation, as on the date of the coming into force of this regulation shall comply with sub-regulations (1) and (2) within a period of one year from the date of the coming into force of this regulation:

Provided that in the event of a merger, acquisition, scheme of arrangement or any other arrangement involving the sponsors of the mutual funds, shareholders of the asset management companies or trustee companies, their associates or group companies which results in the incidental acquisition of shares, voting rights or representation on the board of the asset management companies or trustee companies, this regulation shall be complied with within a period of one year of coming into force of such an arrangement.

Consideration of application

8. The Board, may on receipt of all information decide the application.

Grant of Certificate of Registration

9. The Board may register the mutual fund and grant a certificate in Form B on the applicant paying the registration fee as specified in Second Schedule.
Terms and conditions of registration

10. The registration granted to a mutual fund under regulation 9, shall be subject to the following terms and conditions—

(a) the trustees, the sponsor, the asset management company and the custodian shall comply with the provisions of these regulations;

(b) the mutual fund shall forthwith inform the Board, if any information or particulars previously submitted to the Board was misleading or false in any material respect;

(c) the mutual fund shall forthwith inform the Board, of any material change in the information or particulars previously furnished, which have a bearing on the registration granted by it;

(d) payment of fees as specified in the regulations and the Second Schedule.

Rejection of application

11. Where the sponsor does not satisfy the eligibility criteria mentioned in regulation 7, the Board may reject the application and inform the applicant of the same.

Payment of annual service fee

12. A mutual fund shall pay before the 15th April each year a service fee as specified in the Second Schedule for every financial year from the year following the year of registration:

Provided that the Board may, on being satisfied with the reasons for the delay permit the mutual fund to pay the service fee at any time before the expiry of two months from the commencement of the financial year to which such fee relates.

Failure to pay annual service fee

13. The Board may not permit a mutual fund who has not paid service fee to launch any scheme.

CHAPTER III

CONSTITUTION AND MANAGEMENT OF MUTUAL FUND AND OPERATION OF TRUSTEES, ETC

Trust deed to be registered under the Registration Act

14. A mutual fund shall be constituted in the form of a trust and the instrument of trust shall be in the form of a deed, duly registered under the provisions of the Indian Registration Act, 1908 (16 of 1908), executed by the sponsor in favour of the trustees named in such an instrument.

Contents of trust deed

15. (1) The trust deed shall contain such clauses as are mentioned in the Third Schedule and such other clauses which are necessary for safeguarding the interests of the unit holders.
(2) No trust deed shall contain a clause which has the effect of—

(i) limiting or extinguishing the obligations and liabilities of the trust in relation to any mutual fund or the unit holders; or

(ii) Indemnifying the trustees or the asset management company for loss or damage caused to the unit holders by their acts of negligence or acts of commission or omission.

**Disqualification from being appointed as trustees**

16. (1) A mutual fund shall appoint trustees in accordance with these regulations.

(2) No person shall be eligible to be appointed as a trustee unless—

(a) he is a person of ability, integrity and standing; and

(b) has not been found guilty of moral turpitude; and

(c) has not been convicted of any economic offence or violation of any securities laws; and

(d) has furnished particulars as specified in Form C.

(3) No asset management company and no director (including independent director), officer or employee of an asset management company shall be eligible to be appointed as a trustee of any mutual fund.

(4) No person who is appointed as a trustee of a mutual fund shall be eligible to be appointed as a trustee of any other mutual fund:

Provided that any mutual fund which is not in compliance with sub-regulation (3) or (4) as at the commencement of the Securities and Exchange Board of India (Mutual Funds) (Fifth Amendment) Regulations, 2006 shall ensure compliance therewith within three months from such commencement.

(5) Two-thirds of the trustees shall be independent persons and shall not be associated with the sponsors or be associated with them in any manner whatsoever.

(6) In case a company is appointed as a trustee then its directors can act as trustees of any other trust provided that the object of the trust is not in conflict with the object of the mutual fund.

**Approval of the Board for appointment of trustee**

17. (1) No trustee shall initially or any time thereafter be appointed without prior approval of the Board.

(2) The existing trustees of any mutual fund may form a trustee company to act as a trustee with the prior approval of the Board.

**Rights and obligations of the trustees**

18. (1) The trustees and the asset management company shall with the prior approval of the Board
enter into an investment management agreement.

(2) The investment management agreement shall contain such clauses as are mentioned in the Fourth Schedule and such other clauses as are necessary for the purpose of making investments.

(3) The trustees shall have a right to obtain from the asset management company such information as is considered necessary by the trustees.

(4) The trustees shall ensure before the launch of any scheme that the asset management company, has,—

(a) systems in place for its back office, dealing room and accounting;

(b) appointed all key personnel including fund manager(s) for the scheme(s) and submitted their bio-data which shall contain the educational qualifications, past experience in the securities market with the trustees, within 15 days of their appointment;

(c) appointed auditors to audit its accounts;

(d) appointed a compliance officer who shall be responsible for monitoring the compliance of the Act, rules and regulations, notifications, guidelines, instructions, etc., issued by the Board or the Central Government and for redressal of investors grievances;

(e) appointed registrars and laid down parameters for their supervision;

(f) prepared a compliance manual and designed internal control mechanisms including internal audit systems;

(g) specified norms for empanelment of brokers and marketing agents;

(h) obtained, wherever required under these regulations, prior in principle approval from the recognised stock exchange(s) where units are proposed to be listed.

(4A) The compliance officer appointed under clause (d) of sub-regulation (4) shall immediately and independently report to the Board any non-compliance observed by him.

(5) The trustees shall ensure that an asset management company has been diligent in empanelling the brokers, in monitoring securities transactions with brokers and avoiding undue concentration of business with any broker.

(6) The trustees shall ensure that the asset management company has not given any undue or unfair advantage to any associates or dealt with any of the associates of the asset management company in any manner detrimental to interest of the unit holders.

(7) The trustees shall ensure that the transactions entered into by the asset management company are in accordance with these regulations and the scheme.

(8) The trustees shall ensure that the asset management company has been managing the mutual fund schemes independently of other activities and have taken adequate steps to ensure that the interest of investors of one scheme are not being compromised with those of any other scheme or
of other activities of the asset management company.

(9) The trustees shall ensure that all the activities of the asset management company are in accordance with the provisions of these regulations.

(10) Where the trustees have reason to believe that the conduct of business of the mutual fund is not in accordance with these regulations and the scheme they shall forthwith take such remedial steps as are necessary by them and shall immediately inform the Board of the violation and the action taken by them.

(11) Each trustee shall file the details of his transactions of dealing in securities with the Mutual Fund on a quarterly basis.

(12) The trustees shall be accountable for, and be the custodian of, the funds and property of the respective schemes and shall hold the same in trust for the benefit of the unit holders in accordance with these regulations and the provisions of trust deed.

(13) The trustees shall take steps to ensure that the transactions of the mutual fund are in accordance with the provisions of the trust deed.

(14) The trustees shall be responsible for the calculation of any income due to be paid to the mutual fund and also of any income received in the mutual fund for the holders of the units of any scheme in accordance with these regulations and the trust deed.

(15) The trustees shall obtain the consent of the unit holders—

(a) whenever required to do so by the Board in the interest of the unit holders; or

(b) whenever required to do so on the requisition made by three-fourths of the unit holders of any scheme; or

(c) when the majority of the trustees decide to wind up or prematurely redeem the units.

(15A) The trustees shall ensure that no change in the fundamental attributes of any scheme or the trust or fees and expenses payable or any other change which would modify the scheme and affects the interest of unit holders, shall be carried out unless,—

(i) a written communication about the proposed change 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 region where the Head Office of the mutual fund is situated; and

(ii) the unit holders are given an option to exit at the prevailing Net Asset Value without any exit load.

(16) The trustees shall call for the details of transactions in securities by the key personnel of the asset management company in his own name or on behalf of the asset management company and shall report to the Board, as and when required.
(17) The trustees shall quarterly review all transactions carried out between the mutual funds, asset management company and its associates.

(18) The trustees shall quarterly review the net worth of the asset management company and in case of any shortfall, ensure that the asset management company make up for the shortfall as per clause (f) of sub-regulation (1) of regulation 21.

(19) The trustees shall periodically review all service contracts such as custody arrangements, transfer agency of the securities and satisfy itself that such contracts are executed in the interest of the unit holder.

(20) The trustees shall ensure that there is no conflict of interest between the manner of deployment of its net worth by the asset management company and the interest of the unit-holders.

(21) The trustees shall periodically review the investor complaints received and the redressal of the same by the asset management company.

(22) The trustees shall abide by the Code of Conduct as specified in the Fifth Schedule.

(23) The trustees shall furnish to the Board on a half-yearly basis,—

(a) a report on the activities of the mutual fund;

(b) a certificate stating that the trustees have satisfied themselves that there have been no instances of self-dealing or front running by any of the trustees, directors and key personnel of the asset management company;

(c) a certificate to the effect that the asset management company has been managing the schemes independently of any other activities and in case any activities of the nature referred to in sub-regulation (2) of regulation 24 have been undertaken by the asset management company and has taken adequate steps to ensure that the interests of the unit holders are protected.

(24) The independent trustees referred to in sub-regulation (5) of regulation 16 shall give their comments on the report received from the asset management company regarding the investments by the mutual fund in the securities of group companies of the sponsor.

(25) Trustees shall exercise due diligence as under:

A. General Due Diligence:

(i) The Trustees shall be discerning in the appointment of the directors on the Board of the asset management company.

(ii) Trustees shall review the desirability or continuance of the asset management company if substantial irregularities are observed in any of the schemes and shall not allow the asset management company to float new schemes.
(iii) The Trustee shall ensure that the trust property is properly protected, held and administered by proper persons and by a proper number of such persons.

(iv) The Trustee shall ensure that all service providers are holding appropriate registrations from the Board or concerned regulatory authority.

(v) The Trustees shall arrange for test checks of service contracts.

(vi) Trustees shall immediately report to the Board of any special developments in the mutual fund.

B. Specific due diligence: The Trustees shall:

(i) obtain internal audit reports at regular intervals from independent auditors appointed by the Trustees,

(ii) obtain compliance certificates at regular intervals from the asset management company,

(iii) hold meeting of trustees more frequently,

(iv) consider the reports of the independent auditor and compliance reports of asset management company at the meetings of trustees for appropriate action,

(v) maintain records of the decisions of the Trustees at their meetings and of the minutes of the meetings,

(vi) prescribe and adhere to a code of ethics by the Trustees, asset management company and its personnel,

(vii) communicate in writing to the asset management company of the deficiencies and checking on the rectification of deficiencies.

(26) Notwithstanding anything contained in sub-regulations (1) to (25), the trustees shall not be held liable for acts done in good faith if they have exercised adequate due diligence honestly.

(27) The independent directors of the trustees or asset management company shall pay specific attention to the following, as may be applicable, namely:—

(i) the Investment Management Agreement and the compensation paid under the agreement,

(ii) service contracts with affiliates—whether the asset management company has charged higher fees than outside contractors for the same services,

(iii) selections of the asset management company’s independent directors,

(iv) securities transactions involving affiliates to the extent such transactions are permitted,

(v) selecting and nominating individuals to fill independent directors vacancies,

(vi) code of ethics must be designed to prevent fraudulent, deceptive or manipulative practices by insiders in connection with personal securities transactions,
vii) the reasonableness of fees paid to sponsors, asset management company and any others for services provided,

(viii) principal underwriting contracts and their renewals,

(ix) any service contract with the associates of the asset management company.

CHAPTER IV

CONSTITUTION AND MANAGEMENT OF ASSET MANAGEMENT COMPANY AND CUSTODIAN

Application by an asset management company

19. (1) The application for the approval of the asset management company shall be made in Form D.

(2) The provisions of regulations 5, 6 and 8 shall, so far as may be, apply to the application made under sub-regulation (1) as they apply to the application for registration of a mutual fund.

Appointment of an asset management company

20. (1) The sponsor or, if so authorised by the trust deed, the trustee, shall appoint an asset management company, which has been approved by the Board under sub-regulation (2) of regulation 21.

(2) The appointment of an asset management company can be terminated by majority of the trustees or by seventy-five per cent of the unit holders of the scheme.

(3) Any change in the appointment of the asset management company shall be subject to prior approval of the Board and the unit holders.

Eligibility criteria for appointment of asset management company

21. (1) For grant of approval of the asset management company the applicant has to fulfill the following:

(a) in case the asset management company is an existing asset management company it has a sound track record, general reputation and fairness in transactions.

Explanation: For the purpose of this clause sound track record shall mean the net worth and the profitability of the asset management company;

(aa) the asset management company is a fit and proper person;

(b) the directors of the asset management company are persons having adequate professional experience in finance and financial services related field and not found guilty of moral turpitude or convicted of any economic offence or violation of any securities laws;

(c) the key personnel of the asset management company have not been found guilty of moral turpitude or convicted of economic offence or violation of securities laws or worked for any
asset management company or mutual fund or any intermediary during the period when its registration has been suspended or cancelled at any time by the Board;

(d) the board of directors of such asset management company has at least fifty per cent directors, who are not associate of, or associated in any manner with, the sponsor or any of its subsidiaries or the trustees;

(e) the Chairman of the asset management company is not a trustee of any mutual fund;

(f) the asset management company has a net worth of not less than rupees fifty crore:

Provided that an asset management company already granted approval under the provisions of Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 shall within a period of three years from the date of notification of Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2014 increase its net worth to rupees fifty crore:

Provided further that no new schemes shall be allowed to be launched or managed by such asset management company till the net worth has been raised to rupees fifty crore.

Explanation: For the purposes of this clause, “net worth” means the aggregate of the paid up capital and free reserves of the asset management company after deducting therefrom miscellaneous expenditure to the extent not written off or adjusted or deferred revenue expenditure, intangible assets and accumulated losses.

Provided further that an asset management company of a mutual fund eligible to launch only infrastructure debt fund schemes, shall have a net worth of not less than rupees ten crore.

Provided further that in cases where the Board is satisfied that an asset management company is taking steps to meet the net worth requirement within the specified time, the asset management company may be allowed to launch up to two new schemes per year.

Explanation: For the purposes of this clause, "net worth" means the aggregate of the paid up capital and free reserves of the asset management company after deducting therefrom miscellaneous expenditure to the extent not written off or adjusted or deferred revenue expenditure, intangible assets and accumulated losses.

(2) The Board may, after considering an application with reference to the matters specified in sub-regulation (1), grant approval to the asset management company.

Terms and conditions to be complied with

22. The approval granted under sub-regulation (2) of regulation 21 shall be subject to the following conditions, namely :-

(a) any director of the asset management company shall not hold the office of the director in another asset management company unless such person is an independent director referred to in clause (d) of sub-regulation (1) of regulation 21 and approval of the Board of asset management company of which such person is a director, has been obtained;
(b) the asset management company shall forthwith inform the Board of any material change in the information or particulars previously furnished, which have a bearing on the approval granted by it;

(c) no appointment of a director of an asset management company shall be made without prior approval of the trustees;

(d) the asset management company undertakes to comply with these regulations;

(e) no change in the controlling interest of the asset management company shall be made unless,—

(i) prior approval of the trustees and the Board is obtained;

(ii) a written communication about the proposed change is sent to each unit holder 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 unit holders are given an option to exit on the prevailing Net Asset Value without any exit load;

(f) the asset management company shall furnish such information and documents to the trustees as and when required by the trustees.

Procedure where approval is not granted

23. Where an application made under regulation 19 for grant of approval does not satisfy the eligibility criteria laid down in regulation 21, the Board may reject the application.

Restrictions on business activities of the asset management company

24. The asset management company shall, -

(a) not act as a trustee of any mutual fund;

(b) not undertake any business activities other than in the nature of management and advisory services provided to pooled assets including offshore funds, insurance funds, pension funds, provident funds, or Category I foreign portfolio investor as specified in Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2014, if any of such activities are not in conflict with the activities of the mutual fund:

Provided that the asset management company may itself or through its subsidiaries undertake such activities, as permitted under clause (b), if, -

(i) it satisfies the Board that bank and securities accounts are segregated activity wise;

(ii) it meets with the capital adequacy requirements, if any, separately for each such activity and obtain separate approval, if necessary under the relevant regulations;
(iii) it ensures that there is no material conflict of interest across different activities;

(iv) the absence of conflict of interest shall be disclosed to the trustees and unit holders in scheme information document and statement of additional information;

(v) there are unavoidable conflict of interest situations, it shall satisfy itself that disclosures are made of source of conflict, potential ‘material risk or damage’ to investor interests and detailed parameters for the same;

(vi) it appoints separate fund manager for each separate fund managed by it unless the investment objectives and asset allocation are same and the portfolio is replicated across all the funds managed by the fund manager, within a period of six months from the date of notification of Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2011;

Provided that the requirements of this clause shall not apply if the funds managed are of Category I foreign portfolio investors and/or Category II foreign portfolio investors which are appropriately regulated broad based funds, as specified in Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2014

(vii) it ensures fair treatment of investors across different products that shall include, but not limited to, simultaneous buy and sell in the same equity security only through market mechanism and a written trade order management system; and

(viii) it ensures independence to key personnel handling the relevant conflict of interest is provided through removal of direct link between remuneration to relevant asset management company personnel and revenues generated by that activity:

Provided further that the asset management company may, itself or through its subsidiaries, undertake portfolio management services and advisory services for other than broad based fund till further directions, as may be specified by the Board, subject to compliance with the following additional conditions:-

(i) it satisfies the Board that key personnel of the asset management company, the system, back office, bank and securities accounts are segregated activity wise and there exist system to prohibit access to inside information of various activities;

(ii) it meets with the capital adequacy requirements, if any, separately for each of such activities and obtain separate approval, if necessary under the relevant regulations.

Provided further that the asset management company may become a proprietary trading member for carrying out trades in the debt segment of a recognised stock exchange, on behalf of a mutual fund.

Explanation: — For the purpose of this regulation, with the exception of proviso to clause (vi) of first proviso to clause (b), the term ‘broad based fund’ shall mean the fund which has
at least twenty investors and no single investor account for more than twenty five percent of corpus of the fund.

**Asset Management Company and its obligations**

**25.** (1) The asset management company shall take all reasonable steps and exercise due diligence to ensure that the investment of funds pertaining to any scheme is not contrary to the provisions of these regulations and the trust deed.

(2) The asset management company shall exercise due diligence and care in all its investment decisions as would be exercised by other persons engaged in the same business.

(2A) The asset management company shall obtain, wherever required under these regulations, prior in-principle approval from the recognized stock exchange(s) where units are proposed to be listed.

(3) The asset management company shall be responsible for the acts of commission or omission by its employees or the persons whose services have been procured by the asset management company.

(4) The asset management company shall submit to the trustees quarterly reports of each year on its activities and the compliance with these regulations.

(5) The trustees at the request of the asset management company may terminate the assignment of the asset management company at any time:

**Provided that** such termination shall become effective only after the trustees have accepted the termination of assignment and communicated their decision in writing to the asset management company.

(6) Notwithstanding anything contained in any contract or agreement or termination, the asset management company or its directors or other officers shall not be absolved of liability to the mutual fund for their acts of commission or omission, while holding such position or office.

(6A) The Chief Executive Officer (whatever his designation may be) of the asset management company shall ensure that the mutual fund complies with all the provisions of these regulations and the guidelines or circulars issued in relation thereto from time to time and that the investments made by the fund managers are in the interest of the unit holders and shall also be responsible for the overall risk management function of the mutual fund.

**Explanation:**— For the purpose of this sub-regulation, the words “these regulations” shall mean and include the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 as amended from time to time.

(6B) The fund managers (whatever the designation may be) shall ensure that the funds of the schemes are invested to achieve the objectives of the scheme and in the interest of the unit holders.
(7) (a) An asset management company shall not through any broker associated with the sponsor, purchase or sell securities, which is average of 5 per cent or more of the aggregate purchases and sale of securities made by the mutual fund in all its schemes:

Provided that for the purpose of this sub-regulation, the aggregate purchase and sale of securities shall exclude sale and distribution of units issued by the mutual fund:

Provided further that the aforesaid limit of 5 per cent shall apply for a block of any three months.

(b) An asset management company shall not purchase or sell securities through any broker [other than a broker referred to in clause (a) of sub-regulation (7)] which is average of 5 per cent or more of the aggregate purchases and sale of securities made by the mutual fund in all its schemes, unless the asset management company has recorded in writing the justification for exceeding the limit of 5 per cent and reports of all such investments are sent to the trustees on a quarterly basis:

Provided that the aforesaid limit shall apply for a block of three months.

(8) An asset management company shall not utilize the services of the sponsor or any of its associates, employees or their relatives, for the purpose of any securities transaction and distribution and sale of securities:

Provided that an asset management company may utilize such services if disclosure to that effect is made to the unit holders and the brokerage or commission paid is also disclosed in the half-yearly annual accounts of the mutual fund:

Provided further that the mutual funds shall disclose at the time of declaring half-yearly and yearly results:

(i) any underwriting obligations undertaken by the schemes of the mutual funds with respect to issue of securities associate companies,

(ii) devolvement, if any,

(iii) subscription by the schemes in the issues lead managed by associate companies,

(iv) subscription to any issue of equity or debt on private placement basis where the sponsor or its associate companies have acted as arranger or manager.

(9) The asset management company shall file with the trustees the details of transactions in securities by the key personnel of the asset management company in their own name or on behalf of the asset management company and shall also report to the Board, as and when required by the Board.

(10) In case the asset management company enters into any securities transactions with any of its associates a report to that effect shall be sent to the trustees at its next meeting.

(11) In case any company has invested more than 5 per cent of the net asset value of a scheme, the investment made by that scheme or by any other scheme of the same mutual fund in that company or its subsidiaries shall be brought to the notice of the trustees by the asset management company and be disclosed in the half-yearly and annual accounts of the respective schemes with
justification for such investment

**Provided** the latter investment has been made within one year of the date of the former investment calculated on either side.

(12) The asset management company shall file with the trustees and the Board—

(a) detailed bio-data of all its directors along with their interest in other companies within fifteen days of their appointment;

(b) any change in the interests of directors every six months; and

(c) a quarterly report to the trustees giving details and adequate justification about the purchase and sale of the securities of the group companies of the sponsor or the asset management company, as the case may be, by the mutual fund during the said quarter.

(13) Each director of the asset management company shall file the details of his transactions of dealing in securities with the trustees on a quarterly basis in accordance with guidelines issued by the Board.

(14) The asset management company shall not appoint any person as key personnel who has been found guilty of any economic offence or involved in violation of securities laws.

(15) The asset management company shall appoint registrars and share transfer agents who are registered with the Board:

**Provided** if the work relating to the transfer of units is processed in-house, the charges at competitive market rates may be debited to the scheme and for rates higher than the competitive market rates, prior approval of the trustees shall be obtained and reasons for charging higher rates shall be disclosed in the annual accounts.

(16) The asset management company shall abide by the Code of Conduct as specified in the Fifth Schedule.

(17) The asset management company shall not invest in any of its scheme, unless full disclosure of its intention to invest has been made in the offer documents, in case of schemes launched after the notification of Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2011:

**Provided that** an asset management company shall not be entitled to charge any fee on its investment in that scheme.

(18) The asset management company shall not carry out its operations including trading desk, unit holder servicing and investment operations outside the territory of India:

**Provided that** the asset management company having any of its operations outside India shall wind up and bring them within the territory of India within a period of one year form the date of notification of Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2011:
Provided further that the Board may grant a further period of one year if it is satisfied that there was sufficient cause for not winding up of the operation outside India within that period.

(19) The asset management company shall compute and carry out valuation of investments made by its scheme(s) in accordance with the investment valuation norms specified in Eighth Schedule, and shall publish the same.

(20) The asset management company and the sponsor of the mutual fund shall be liable to compensate the affected investors and/or the scheme for any unfair treatment to any investor as a result of inappropriate valuation.

(21) The asset management company shall report and disclose all the transactions in debt and money market securities, including inter scheme transfers, as may be specified by the Board.

Appointment of custodian

26. (1) The mutual fund shall appoint a Custodian to carry out the custodial services for the schemes of the fund and sent intimation of the same to the Board within fifteen days of the appointment of the Custodian:

Provided that in case of a gold exchange traded fund scheme, the assets of the scheme being gold or gold related instruments may be kept in custody of a bank which is registered as a custodian with the Board.

Provided further that in case of a real estate mutual fund scheme, the title deed of real estate assets held by it may be kept in the custody of a custodian registered with the Board.

Provided also that mutual fund schemes investing in exchange traded commodity derivatives may appoint a custodian to have custody of the underlying goods in case of physical settlement of such contracts.

(2) No custodian in which the sponsor or its associates hold 50 per cent or more of the voting rights of the share capital of the custodian or where 50 per cent or more of the directors of the custodian represent the interest of the sponsor or its associates shall act as custodian for a mutual fund constituted by the same sponsor or any of its associates or subsidiary company:

Provided that where the sponsor or its associates hold 50 per cent or more of the voting rights of the share capital of the custodian, such custodian may act as custodian for a mutual fund constituted by the same sponsor or any of its associates or subsidiary company if:

(i) the sponsor has a net worth of at least twenty thousand crore rupees at all points of time;

(ii) 50 per cent or more of the directors of the custodian are those who do not represent the interest of the sponsor or its associates;

(iii) the custodian and the asset management company of a mutual fund are not subsidiaries of each other;
(iv) no person is a director of both the custodian and the asset management company of a mutual fund; and

(v) the custodian and the asset management company of a mutual fund sign an undertaking that they will act independently of each other in their dealings with the scheme

Agreement with custodian

27. The mutual fund shall enter into a custodian agreement with the custodian, which shall contain the clauses which are necessary for the efficient and orderly conduct of the affairs of the custodian:

Provided that the agreement, the service contract, terms and appointment of the custodian shall be entered into with the prior approval of the trustees.

CHAPTER V

SCHEMES OF MUTUAL FUND

Procedure for launching of schemes

28. (1) No scheme shall be launched by the asset management company unless such scheme is approved by the trustees and a copy of the offer document has been filed with the Board.

(2) The mutual fund shall pay the minimum filing fee specified in the Second Schedule to the Board while filing the offer document under sub-regulation (1).

(3) The mutual fund shall pay the balance filing fee calculated in accordance with the Second Schedule to the Board within such time as may be specified by the Board.

(4) The sponsor or asset management company shall invest not less than one percent of the amount which would be raised in the new fund offer or fifty lakh rupees, whichever is less, in the growth option of the scheme and such investment shall not be redeemed unless the scheme is wound up:

Provided that this sub-regulation shall not apply to close ended schemes.

(5) The sponsor or asset management company of schemes existing as on date of notification of the SEBI (Mutual Funds)(Amendment) Regulations, 2014 shall invest not less than one percent of the assets under management of the scheme as on date of notification of these regulations or fifty lakh rupees, whichever is less, in the growth option of the scheme and such investment shall not be redeemed unless the scheme is wound up:

Provided that the amount calculated as per this sub-regulation shall be invested within one year from the date of notification of these regulations:

Provided further this sub-regulation shall not apply to close ended schemes.
29. Disclosures in the offer document

(1) The offer document shall contain disclosures which are adequate in order to enable the investors to make informed investment decision including the disclosure on maximum investments proposed to be made by the scheme in the listed securities of the group companies of the sponsor.

(2) The Board may in the interest of investors require the asset management company to carry out such modifications in the offer document as it deems fit.

(3) In case no modifications are suggested by the Board in the offer document within 21 working days from the date of filing, the asset management company may issue the offer document.

(4) No one shall issue any form of application for units of a mutual fund unless the form is accompanied by the memorandum containing such information as may be specified by the Board.

(5) The offer document shall contain the disclosure regarding the prior in principle approval obtained from the recognized stock exchange(s), where units are proposed to be listed in accordance with these regulations.

Nomination

29A. (1) The asset management company shall provide an option to the unit holder to nominate, in the manner specified in Fourth Schedule, a person in whom the units held by him shall vest in the event of his death.

(2) Where the units are held by more than one person jointly, the joint unit holders may together nominate a person in whom all the rights in the units shall vest in the event of death of all the joint unit holders.

Advertisement material

30. Advertisements shall be in conformity with the Advertisement Code as specified in the Sixth Schedule and shall be submitted to the Board within 7 days from the date of issue.

Misleading statements

31. The offer document and advertisement materials shall not be misleading or contain any statement or opinion which are incorrect or false.

In-principle approval from recognised stock exchange(s).

31A. The listed entity, which intends to list units of its scheme on the recognised stock exchange(s), shall obtain ‘in-principle’ approval from recognised stock exchange(s) in the manner as specified by the recognised stock exchange(s) from time to time.

Listing Agreement

31B. (1) Every mutual fund desirous of listing units of its schemes on a recognised stock exchange shall execute an agreement with such stock exchange.
(2) Every mutual fund which has previously entered into agreements with a recognised stock exchange to list units of its schemes shall execute a fresh listing agreement with such stock exchange within six months of the date of notification of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Listing of close ended schemes

32. Every close ended scheme, other than an equity linked savings scheme, shall be listed on a recognised stock exchange within such time period and subject to such conditions as specified by the Board:

Provided that listing of close ended scheme launched prior to the commencement of the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2009 shall not be mandatory

(a) if the said scheme provides for periodic repurchase facility to all the unit holders with restriction, if any, on the extent of such repurchase; or

(b) if the said scheme provides for monthly income or caters to special classes of persons like senior citizens, women, children, widows or physically handicapped or any special class of persons providing for repurchase of units at regular intervals; or

(c) if the details of such repurchase facility are clearly disclosed in the offer document; or

(d) if the said scheme opens for repurchase within a period of six months from the closure of subscription; or

(e) if the said scheme is a capital protection oriented scheme.

Repurchase of close ended schemes

33. (1) Units of a close ended scheme, other than those of an equity linked savings scheme, launched on or after the commencement of the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2009 shall not be repurchased before the end of maturity period of such scheme.

(2) The units of close ended schemes referred to in the proviso to regulation 32 may be open for sale or redemption at fixed predetermined intervals if the maximum and minimum amount of sale or redemption of the units and the periodicity of such sale or redemption have been disclosed in the offer document.

(3) The units of close ended scheme may be converted into open-ended scheme,—

(a) if the offer document of such scheme discloses the option and the period of such conversion; or

(b) the unit holders are provided with an option to redeem their units in full and
(c) the initial issue expenses of the scheme launched prior to commencement of the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2008 have been amortised fully in accordance with the Tenth Schedule.

(4) A close ended scheme shall be fully redeemed at the end of the maturity period

Provided that a close-ended scheme may be allowed to be rolled over if the purpose, period and other terms of the roll over and all other material details of the scheme including the likely composition of assets immediately before the roll over, the net assets and net asset value of the scheme, are disclosed to the unit holders and a copy of the same has been filed with the Board:

Provided further that such roll over will be permitted only in the case of those unit holders who express their consent in writing and the unit holders who do not opt for the roll over or have not given written consent shall be allowed to redeem their holdings in full at net asset value based price.

Offering period

34. No scheme of a mutual fund other than the initial offering period of any equity linked savings schemes shall be open for subscription for more than 15 days:

Provided that in case of mutual fund schemes eligible under Rajiv Gandhi Equity Savings Scheme, the period specified in this regulation shall not be more than thirty days.

Allotment of units and refunds of moneys

35. (1) The asset management company shall specify in the offer document,—

(a) the minimum subscription amount it seeks to raise under the scheme; and

(b) in case of oversubscription the extent of subscription it may retain:

Provided that where the asset management company retains the oversubscription referred to in clause (b), all the applicants applying up to five thousand units shall be given full allotment subject to the oversubscription mentioned in clause (b).

(2) The mutual fund and asset management company shall be liable to refund the application money to the applicants,—

(i) if the mutual fund fails to receive the minimum subscription amount referred to in clause (a) of sub-regulation (1);

(ii) if the moneys received from the applicants for units are in excess of subscription as referred to in clause (b) of sub-regulation (1).

(3) Any amount refundable under sub-regulation (2) shall be refunded within a period of five working days from the date of closure of subscription list, by Registered post with acknowledgement due and by cheque or demand draft marked “A/c payee” to the applicants:

Provided that in case of mutual fund schemes eligible under Rajiv Gandhi Equity Savings
Scheme, the period specified in this sub-regulation shall be fifteen days from the closure of the initial subscription list.

(4) In the event of failure to refund the amounts within the period specified in sub regulation (3), the asset management company shall be liable to pay interest to the applicants at a rate of fifteen per cent per annum from the expiry of five working days from the date of closure of the subscription list:

**Provided that** in case of mutual fund schemes eligible under Rajiv Gandhi Equity Savings Scheme, the period specified in this sub-regulation shall be fifteen days from the closure of the initial subscription list.

**Statement of accounts or unit certificates**

36. (1) The asset management company shall issue to the applicant whose application has been accepted, a statement of accounts specifying the number of units allotted to the applicant as soon as possible but not later than five working days from the date of closure of the initial subscription list and/or from the date of receipt of the request from the unit holders in any open ended scheme:

**Provided that** if an applicant so desires, the asset management company shall issue the unit certificates to the applicant within five working days of the receipt of request for the certificate:

**Provided further** that in case of mutual fund schemes eligible under Rajiv Gandhi Equity Savings Scheme, the period specified in this sub-regulation shall be fifteen days from the closure of the initial subscription list.

(2) An applicant in a close ended scheme whose application has been accepted shall have the option either to receive the statement of accounts or to hold units in dematerialised form and the asset management company shall issue to such applicant, a statement of accounts specifying the number of units allotted to the applicant or issue units in dematerialized form as soon as possible but not later than five working days from the date of closure of the initial subscription list:

**Provided that** in case of mutual fund schemes eligible under Rajiv Gandhi Equity Savings Scheme, the period specified in this sub-regulation shall be fifteen days from the closure of the initial subscription list.

(3) The asset management company shall issue units in dematerialized form to a unit holder in a close ended scheme listed on a recognised stock exchange within two working days of the receipt of request from the unit holder.

(4) The asset management company shall ensure that consolidated account statement for each calendar month is issued, on or before tenth day of succeeding month, detailing all the transactions and holding at the end of the month including transaction charges paid to the distributor, across all schemes of all mutual funds, to all the investors in whose folios transaction has taken place during that month:

**Provided that** the asset management company shall ensure that a consolidated account
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statement every half yearly (September/ March) is issued, on or before tenth day of succeeding month, detailing holding at the end of the six month, across all schemes of all mutual funds, to all such investors in whose folios no transaction has taken place during that period:

Provided further that the asset management company shall identify common investor across fund houses by their permanent account number for the purposes of sending consolidated account statement.

Explanation:- For the purpose of this regulation, the word ‘transaction’ shall include purchase, redemption, switch, dividend payout, dividend reinvestment, systematic investment plan, systematic withdrawal plan, systematic transfer plan and bonus transactions.

Transfer of units

37. (1) A unit unless otherwise restricted or prohibited under the scheme, shall be freely transferable by act of parties or by operation of law.

(1A) A unit holder, in a close ended scheme listed on a recognized stock exchange, who desires to trade in units shall hold units in dematerialised form.

(2) The asset management company shall, on production of instrument of transfer together with relevant unit certificates, register the transfer and return the unit certificate to the transferee within thirty days from the date of such production:

Provided that if the units are with the depository such units will be transferable in accordance with the provisions of the Securities and Exchange Board of India (Depositories and Participants) Regulations, 1996.

Guaranteed returns

38. No guaranteed return shall be provided in a scheme

(a) unless such returns are fully guaranteed by the sponsor or the asset management company;

(b) unless a statement indicating the name of the person who will guarantee the return, is made in the offer document;

(c) the manner in which the guarantee is to be met has been stated in the offer document.

Capital Protection oriented schemes

38A. A capital protection oriented scheme may be launched, subject to the following:

(a) the units of the scheme are rated by a registered credit rating agency from the viewpoint of the ability of its portfolio structure to attain protection of the capital invested therein;

(b) the scheme is close ended; and
(c) there is compliance with such other requirements as may be specified by the Board in this behalf.

Winding up

39. (1) A close-ended scheme shall be wound up on the expiry of duration fixed in the scheme on the redemption of the units unless it is rolled over for a further period under sub-regulation (4) of regulation 33.

(2) A scheme of a mutual fund may be wound up, after repaying the amount due to the unit holders,

(a) on the happening of any event which, in the opinion of the trustees, requires the scheme to be wound up; or

(b) if seventy-five per cent of the unit holders of a scheme pass a resolution that the scheme be wound up; or

(c) if the Board so directs in the interest of the unit holders.

(3) Where a scheme is to be wound up under sub-regulation (2), the trustees shall give notice disclosing the circumstances leading to the winding up of the scheme:—

(a) to the Board; and

(b) in two daily newspapers having circulation all over India, a vernacular newspaper circulating at the place where the mutual fund is formed.

Effect of winding up

40. On and from the date of the publication of notice under clause (b) of sub-regulation (3) of regulation 39, the trustee or the asset management company as the case may be, shall—

(a) cease to carry on any business activities in respect of the scheme so wound up;

(b) cease to create or cancel units in the scheme;

(c) cease to issue or redeem units in the scheme.

Procedure and manner of winding up

41. (1) The trustee shall call a meeting of the unit holders to approve by simple majority of the unit holders present and voting at the meeting resolution for authorising the trustees or any other person to take steps for winding up of the scheme:

Provided that a meeting of the unit holders shall not be necessary if the scheme is wound up at the end of maturity period of the scheme.

(2) (a) The trustee or the person authorised under sub-regulation (1) shall dispose of the assets of the scheme concerned in the best interest of the unit holders of that scheme.
(b) The proceeds of sale realised under clause (a), shall be first utilised towards discharge of such liabilities as are due and payable under the scheme and after making appropriate provision for meeting the expenses connected with such winding up, the balance shall be paid to the unit holders in proportion to their respective interest in the assets of the scheme as on the date when the decision for winding up was taken.

(3) On the completion of the winding up, the trustee shall forward to the Board and the unit holders a report on the winding up containing particulars such as circumstances leading to the winding up, the steps taken for disposal of assets of the fund before winding up, expenses of the fund for winding up, net assets available for distribution to the unit holders and a certificate from the auditors of the fund.

(4) Notwithstanding anything contained in this regulation, the provisions of these regulations in respect of disclosures of half-yearly reports and annual reports shall continue to be applicable until winding up is completed or the scheme ceases to exist].

Winding up of the scheme

42. After the receipt of the report under sub-regulation (3) of regulation 41, if the Board is satisfied that all measures for winding up of the scheme have been complied with, the scheme shall cease to exist.

Delisting of units

42A. The units of a mutual fund scheme shall be delisted from a recognised stock exchange in accordance with the guidelines as may be specified by the Board.

CHAPTER VI

INVESTMENT OBJECTIVES AND VALUATION POLICIES

Investment objective

43. (1) Subject to other provisions of these regulations, a mutual fund may invest moneys collected under any of its schemes only in—

(a) securities;
(b) money market instruments;
(c) privately placed debentures;
(d) securitised debt instruments, which are either asset backed or mortgage backed securities;
(e) gold or gold related instruments; or
(f) real estate assets as defined in clause (a) of regulation 49A; or
(g) infrastructure debt instrument and assets as specified in clause (1) of regulation 49L

(2) Any investment made under sub-regulation (1) shall be in accordance with the investment objective of the relevant mutual fund scheme.

(3) Moneys collected under any money market scheme of a mutual fund shall be invested only in money market instruments.

(4) Moneys collected under any gold exchange traded fund scheme shall be invested only in gold or gold related instruments, in accordance with sub-regulation (5) of regulation 44.

(5) Moneys collected under a real estate mutual fund scheme shall be invested in accordance with regulation 49E.

Investment, borrowing, restriction, etc

44. (1) Any investment to be made under regulation 43 shall be invested subject to the investment restriction specified in the Seventh Schedule:

Provided that nothing in the Seventh Schedule, save clause 14 therein shall apply to a gold exchange traded fund scheme.

(1A) The mutual fund having an aggregate of securities which are worth ₹ 10 crores or more, as on the latest balance-sheet date, shall subject to such instructions as may be issued from time to time by the Board settle their transactions entered on or after January 15, 1998, only through dematerialised securities.

(2) The mutual fund shall not borrow except to meet temporary liquidity needs of the mutual funds for the purpose of repurchase, redemption of units or payment of interest or dividend to the unit holders:

Provided that the mutual fund shall not borrow more than 20 per cent of the net asset of the scheme and the duration of such a borrowing shall not exceed a period of six months.

(3) Save as otherwise expressly provided under these regulations, the mutual fund shall not advance any loans for any purpose.

(4) A mutual fund may lend and borrow securities in accordance with the framework relating to short selling and securities lending and borrowing specified by the Board.

(5) A gold exchange traded fund scheme shall be subject to the following investment restrictions:

(a) the funds of any such scheme shall be invested only in gold or gold related instruments in accordance with its investment objective, except to the extent necessary to meet the liquidity requirements for honoring repurchases or redemptions, as disclosed in the offer document; and

(b) pending deployment of funds in accordance with clause (b), the mutual fund may invest such funds in short-term deposits of scheduled commercial banks.
Carry forward transactions, derivatives transactions and short selling transactions

45. (1) The funds of a scheme shall not in any manner be used in carry forward transactions:

Provided that a mutual fund may enter into derivatives transactions on a recognized stock exchange, subject to the framework specified by the Board.

(2) A mutual fund may enter into short selling transactions on a recognized stock exchange, subject to the framework relating to short selling and securities lending and borrowing specified by the Board.

Underwriting of securities

46. Mutual funds may enter into underwriting agreement after obtaining a certificate of registration in terms of the Securities and Exchange Board of India (Underwriters) Rules and Securities and Exchange Board of India (Underwriters) Regulations, 1993 authorising it to carry on activities as underwriters.

Explanation: (1) For the purpose of these regulations, the underwriting obligation will be deemed as if investments are made in such securities.

(2) The capital adequacy norms for the purpose of underwriting shall be the net asset of the scheme:

Provided that the underwriting obligation of a mutual fund shall not at any time exceed the total net asset value of the scheme.

Valuation of investments

47. Every mutual fund shall ensure that the asset management company computes and carries out valuation of investments made by its scheme(s) in accordance with the investment valuation norms specified in Eighth Schedule, and publishes the same.

Computation of Net Asset Value

48. (1) Every mutual fund shall compute the Net Asset Value of each scheme by dividing the net assets of the scheme by the number of units outstanding on the valuation date.

(2) The Net Asset Value of the scheme shall be calculated on daily basis and disclosed in the manner specified by the Board.

Pricing of Units

49. (1) The price at which the units may be subscribed or sold and the price at which such units may at any time be repurchased by the mutual fund shall be made available to the investors in the manner specified by the Board.

(2) The mutual fund shall provide the methodology of calculating the sale and repurchase price of units in the manner specified by the Board.
(3) While determining the prices of the units, the mutual fund shall ensure that the repurchase price is not lower than 93 per cent of the Net Asset Value and the sale price is not higher than 107 per cent of the Net Asset Value:

Provided that the repurchase price of the units of close ended scheme launched prior to the commencement of the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2009 shall not be lower than ninety five per cent of the Net Asset Value:

Provided further that the difference between the repurchase price and the sale price of the unit shall not exceed 7 per cent calculated on the sale price:

(3A) Where a mutual fund repurchases units in a close ended scheme launched prior to the commencement of the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2009 which fulfills the conditions mentioned in sub-regulation (3B), it shall deduct an amount representing proportionate initial issue expenses or part thereof remaining unamortized, from the repurchase proceeds.

Explanation: The term “proportionate initial issue expenses or part thereof remaining unamortised” refers to such proportion of the expenses of the scheme as are attributable to the units being repurchased. (3B) The conditions referred to in sub-regulation (3A) are the following:

(a) the scheme is launched after the commencement of the Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2006 and prior to commencement of the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2008;

(b) initial issue expenses in respect of the scheme are accounted in the books of accounts of the scheme in accordance with Tenth Schedule.

(3C) The amount recovered under sub-regulation (3A) shall be credited to the unamortized initial issue expenses of the scheme.

(4) The price of units shall be determined with reference to the last determined Net Asset Value as mentioned in sub-regulation (3) unless,

(a) the scheme announces the Net Asset Value on a daily basis; and

(b) the sale price is determined with or without a fixed premium added to the future net asset value which is declared in advance.

CHAPTER VIA

REAL ESTATE MUTUAL FUND SCHEMES

Definitions

49A. For the purposes of this Chapter, unless the context otherwise requires-
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(a) “real estate asset” means an identifiable immovable property-

(i) which is located within India in such city as may be specified by the Board from time to time or in a special economic zone within the meaning of clause (za) of section 2 of the Special Economic Zones Act, 2005 (28 of 2005);

(ii) on which construction is complete and which is usable;

(iii) which is evidenced by valid title documents;

(iv) which is legally transferable;

(v) which is free from all encumbrances;

(vi) which is not subject matter of any litigation; but does not include-

I. a project under construction; or

II. vacant land; or

III. deserted property; or

IV. land specified for agricultural use; or

V. a property which is reserved or attached by any Government or other authority or pursuant to orders of a court of law or the acquisition of which is otherwise prohibited under any law for the time being in force;

(b) “real estate valuer” means a qualified valuer of real estate assets who has been accredited by a credit rating agency registered with the Board.

Applicability

49B. (1) The provisions of this Chapter shall apply to real estate mutual fund schemes.

(2) Unless the context otherwise requires, all other provisions of these regulations and the guidelines and circulars issues thereunder shall apply to real estate mutual fund schemes, and trustees and asset management companies in relation to such schemes, except where specific provisions are made in relation thereto under this Chapter.

Additional eligibility criteria

49C. (1) A Certificate of registration may be granted under regulation 9 to an applicant proposing to launch only real estate mutual fund schemes if he;

(a) has been carrying on business in real estate for a period of not less than five years;

(b) fulfills eligibility criteria provided in regulation 7, except that specified in item (i) of the Explanation to clause (a) thereof:

(2) A real estate mutual fund scheme of a mutual fund registered under sub-regulation (1) shall not invest in the securities mentioned in sub-clauses (ii) to (iii) of clause (a) or in clause (b) of sub-
regulation (2) of regulation 49E unless it has key personnel having adequate professional experience in finance and financial services related field.

(3) An existing mutual fund may launch a real estate mutual fund scheme if it has an adequate number of key personnel and directors having adequate experience in real estate.

Other conditions for real estate mutual fund schemes

49D. (1) Every real estate mutual fund scheme shall be close-ended and its units shall be listed on a recognized stock exchange:

Provided that the redemption of a real estate mutual fund scheme may be done in a staggered manner.

(2) The units issued by a real estate mutual fund scheme shall not confer any right on the unit holders to use the real estate assets held by the scheme and any provision to the contrary in the trust deed or in the terms of issue shall be void.

(3) The title deeds pertaining to real estate assets held by a real estate mutual fund scheme shall be kept in safe custody with the custodian of the mutual fund.

(4) A real estate mutual fund scheme shall not undertake lending or housing finance activities.

(5) All financial transactions of a real estate mutual fund scheme shall be routed through banking channels and they shall not be cash or unaccounted transactions.

Permissible investments

49E. (1) Every real state mutual fund scheme shall invest at least thirty five per cent. of the net assets of the scheme directly in real estate assets.

(2) Subject to sub-regulation (1), every real estate mutual fund scheme shall invest-

(a) at least seventy five per cent. of the net assets of the scheme in-

(i) real estate assets;

(ii) mortgage backed securities (but not directly in mortgages);

(iii) equity shares or debentures of companies engaged in dealing in real estate assets or in undertaking real estate development projects, whether listed on a recognized stock exchange in India or not; (b) the balance in other securities;

(3) Unless otherwise disclosed in the offer document, no mutual fund shall, under all its real estate mutual fund schemes, invest more than thirty per cent. of its net assets in a single city.

(4) No mutual fund shall, under all its real estate mutual fund schemes, invest more than fifteen per cent. of its net assets in the real estate assets of any single real estate project.

Explanation: For the purposes of this regulation, “single real estate project” means a project by a builder in a single location within a city.
(5) No mutual fund shall, under all its real estate mutual fund schemes, invest more than twenty-five per cent. of the total issued capital of any unlisted company.

(6) No mutual fund shall invest more than fifteen per cent of the net assets of any of its real estate mutual fund schemes in the equity shares or debentures of any unlisted company.

(7) No real estate mutual fund scheme shall invest in –
   
   (a) any unlisted security of the sponsor or its associate or group company;
   
   (b) any listed security issued by way of preferential allotment by the sponsor or its associate or group company;
   
   (c) any listed security of the sponsor or its associate or group company, in excess of twenty-five per cent of the net assets of the scheme.

(8) No mutual fund shall transfer real estate assets amongst its schemes.

(9) No mutual fund shall invest in any real estate asset which was owned by the sponsor or the asset management company or any of its associates during the period of last five years or in which the sponsor or the asset management company or any of its associates hold tenancy or lease rights.

Valuation of real estate assets and declaration of net asset value

49F. (1) The real estate assets held by a real estate mutual fund scheme shall be valued –
   
   (a) at cost price on the date of acquisition; and
   
   (b) at fair price on every ninetieth day from the day of its purchase in accordance with the norms specified in Schedule IXB.

(2) The asset management company, its directors, the trustees and the real estate valuer shall ensure that the valuation of assets held by a real estate mutual fund scheme are done in good faith, in accordance with the norms specified in Schedule IXB and that the accounts of the scheme are prepared in accordance with accounting principles specified in Schedule XI.

(3) The net asset value of every real estate mutual fund scheme shall be calculated and declared at the close of each business day on the basis of the most current valuation of the real estate assets held by the scheme and accrued income thereon, if any.

Duties of asset management company

49G. (1) Without prejudice to the provisions of regulation 21, the asset management company of a mutual fund having real estate mutual fund schemes shall appoint suitable number of qualified key personnel with relevant experience, before undertaking investment management of real estate assets of a real estate mutual fund scheme.

(2) The asset management company may appoint advisors to advise it on acquisitions or proposed acquisitions of real estate assets.
(3) The asset management company shall exercise due care while appointing real estate valuers for valuing the real estate assets held by the real estate mutual fund scheme and shall ensure that there is no conflict of interest.

(4) The asset management company shall lay down an adequate system of internal controls and risk management.

(5) The asset management company shall put in place systems to ensure that all financial transactions are done through banking channels and exclude transactions in cash or unaccounted transactions.

(6) The asset management company shall exercise due diligence in maintenance of the assets of a real estate mutual fund scheme and shall ensure that there is no avoidable deterioration in their value.

(7) The asset management company shall ensure that the real estate assets held by a real estate mutual fund scheme are adequately insured against impair, damage or destruction.

(8) The asset management company shall ensure that the cost of maintenance and insurance of real estate assets is within reasonable limits and that no funds of the scheme are utilized towards development of such assets.

(9) The asset management company shall ensure that a real estate valuer certifies compliance with sub-regulation (8) on an annual basis.

(10) The asset management company shall ensure that no real estate valuer continues with valuation of particular real estate asset for more than two years and that no such valuer values the same asset for a period of at least three years thereafter.

(11) The asset management company shall record in writing, the details of its decision making process in buying or selling real estate assets together with the justifications for such decisions and forward the same periodically to trustees.

(12) The asset management company shall ensure that investment of funds of the real estate mutual fund scheme is not made contrary to provisions of this chapter and the trust deed.

(13) The asset management company shall obtain, wherever required under these regulations, prior in-principle approval from the recognized stock exchange(s) where units are proposed to be listed.

Usage of real estate assets of a real estate mutual fund scheme

49H. (1) The asset management company may let out or lease out the real estate assets held by the real estate mutual fund scheme if the term of such lease or letting does not extend beyond the period of maturity of the scheme.

(2) Where real estate assets are let out or leased out, the asset management company shall diligently collect the rents or other income in a timely manner.
(3) Real estate assets held by a real estate mutual fund scheme may be let out to the sponsor, asset management company or any of their associates, at market price or otherwise on commercial terms:

Provided that not more than 25% of the total rental income of the scheme shall be derived from assets so let out.

Duties of trustees

49I. (1) The trustees shall ensure that the asset management company has the necessary expertise, internal control systems and risk management mechanism to invest in and manage investments in real estate assets on a continuous basis.

(2) The trustees shall monitor whether due diligence is exercised by the asset management company in managing the investments.

(3) The trustees shall review the market price of the units during the year and shall recommend proportionate buy back of units from unit holders, if the units are traded at steep discount to the net asset value.

(4) The magnitude of discount which shall amount to steep discount referred to in sub regulation (3) shall be disclosed in the offer document.

(5) The trustees shall ensure that only permissible investments are made by the asset management company.

(6) The trustees shall ensure that all financial transactions of the real estate mutual fund scheme are made only through banking channels and that systems exist to exclude transactions in cash and unaccounted transactions.

(7) The trustees shall lay down the criteria for empanelment of real estate brokers.

(8) The trustees shall lay down the broad procedure to be followed by the asset management company while transacting in real estate assets.

(9) The trustees shall require the asset management company to set up such systems and submit such reports to trustees, as may be necessary for them to effectively monitor the performance and functioning of the real estate mutual fund schemes.

(10) The trustees shall include a confirmation on compliance with sub regulation (9) in their half yearly reports made to the Board.

(11) The trustees shall obtain, wherever required under these regulations, prior in principle approval from the recognised stock exchange(s) where units are proposed to be listed.

Disclosures in offer document and other disclosures

49J. (1) The offer documents of real estate mutual fund schemes shall contain disclosures which are adequate for investors to make informed investment decisions and such further disclosures as
may be specified by the Board.

(2) The portfolio disclosures and financial results in respect of a real estate mutual fund scheme shall contain such further disclosures as are specified by the Board.

(3) Advertisements in respect of real estate mutual fund schemes shall conform to such guidelines as may be specified by the Board.

Transactions by employees etc.

49K. (1) All transactions done by the trustees or the employees or directors of the asset management company or the trustee company in real estate assets shall be disclosed by them to the compliance officer within one month of the transaction.

(2) The compliance officer shall make a report thereon from the view point of possible conflict of interest and shall submit it to the trustees with his recommendations, if any.

(3) The persons covered in sub-regulation (1) may obtain the views of the trustees before entering into the transaction in real estate assets, by making a suitable request to them.

CHAPTER VI -B

INFRASTRUCTURE DEBT FUND SCHEMES

Definitions

49L. For the purposes of this Chapter, unless the context otherwise requires-

(1) “Infrastructure debt fund scheme” means a mutual fund scheme that invests primarily (minimum 90% of scheme assets) in the debt securities or securitized debt instrument of infrastructure companies or infrastructure capital companies or infrastructure projects or special purpose vehicles which are created for the purpose of facilitating or promoting investment in infrastructure, and other permissible assets in accordance with these regulations or bank loans in respect of completed and revenue generating projects of infrastructure companies or projects or special purpose vehicles.

(2) “Infrastructure” includes the sectors as specified by guidelines issued by the Board or as notified by Ministry of Finance, from time to time.

(3) ‘Strategic Investor’ means;

(i) an Infrastructure Finance Company registered with Reserve bank of India as Non Banking Financial Company;

(ii) a Scheduled Commercial Bank;

(iii) International Multilateral Financial Institution;
(iv) Systemically Important Non Banking Financial Companies registered with Reserve Bank of India;

(v) Foreign Institutional Investors registered with the Board, subject to their applicable investment limits, which are long term investors in terms of the norms specified by SEBI.

Applicability

49M. (1) The provisions of this chapter shall apply to infrastructure debt fund schemes launched by mutual funds.

(2) All other provisions of these regulations and the guidelines and circulars issued thereunder, unless the context otherwise require or repugnant to the provisions of this chapter, shall apply to infrastructure debt fund schemes, trustees and asset management companies in relation to such schemes.

Eligibility criteria for launching infrastructure debt fund scheme

49N. (1) An existing mutual fund may launch an infrastructure debt fund schemes if it has an adequate number of key personnel having adequate experience in infrastructure sector.

(2) A certificate of registration may be granted under regulation 9 to an applicant proposing to launch only infrastructure debt fund schemes if the sponsor or the parent company of the sponsor:

(a) has been carrying on activities or business in infrastructure financing sector for a period of not less than five years;

(b) fulfills eligibility criteria provided in Regulation 7.

Explanation- For the purpose of this clause, ‘parent company of the sponsor’ shall mean a company which holds at least 75% of paid up equity share capital of the sponsor.

Offering period

49NA. No scheme of an infrastructure debt fund, in the case of a public offer, shall be open for subscription for more than forty five days.

Conditions for infrastructure debt fund schemes

49O. (1) An infrastructure debt fund scheme shall be launched either as close-ended scheme maturing after more than five years or interval scheme with lock-in of five years and specified transaction period of not more than forty five days as may be specified in the scheme information document.

Provided that the tenure of the scheme may be extended to two years subject to approval of two-thirds of the unit holders by value of their investment in the scheme.

(2) Units of infrastructure debt fund schemes shall be listed on a recognized stock exchange, provided that such units shall be listed only after being fully paid up.
(3) Mutual Funds may disclose indicative portfolio of infrastructure debt fund scheme to its potential investors disclosing the type of assets the mutual fund will be investing.

(4) An infrastructure debt fund scheme shall have minimum five investors and no single investor shall hold more than fifty percent of net assets of the scheme.

(5) No infrastructure debt fund scheme shall accept any investment from any investor which is less than Rupees one crore.

(6) The minimum size of the unit shall be Rupees ten lakhs.

(7) Each scheme launched as infrastructure debt fund scheme shall have firm commitment from the strategic investors for contribution of an amount of at least Rupees twenty five crores before the allotment of units of the scheme are marketed to other potential investors.

(8) Mutual Funds launching infrastructure debt fund scheme may issue partly paid units to the investors, subject to following conditions:

(a) The asset management company shall call for the unpaid portions depending upon the deployment opportunities;

(b) The offer document of the scheme shall disclose the interest or penalty which may be deducted in case of nonpayment of call money by the investors within stipulated time; and

(c) The amount of interest or penalty shall be retained in the scheme.

Private Placement

49-OA. (1) The units of an infrastructure debt fund scheme may be offered through private placement to less than fifty persons, subject to approval by the trustees and the board of the asset management company.

(2) The offer made under sub-regulation (1), shall be subject to the following:

(a) A placement memorandum, in the manner as specified by the Board, shall be filed by the mutual fund with the Board at least seven days prior to the launch of the scheme; and

(b) the mutual fund shall pay to the Board, filing fee as specified in the Second Schedule.

Permissible investments

49P. (1) Every infrastructure debt fund scheme shall invest at least ninety percent of the net assets of the scheme in the debt securities or securitized debt instruments of infrastructure companies or projects or special purpose vehicles which are created for the purpose of facilitating or promoting investment in infrastructure or bank loans in respect of completed and revenue generating projects of infrastructure companies or special purpose vehicle.

Provided that the funds received on account of re-payment of principal, whether by way of pre-payment or otherwise, with respect to the underlying assets of the scheme, shall be invested as specified in this sub-regulation:
Provided further that if the investments specified in this sub-regulation are not available, such funds may be invested in bonds of Public Financial Institutions and Infrastructure Finance Companies.

(2) Subject to sub-regulation (1), every infrastructure debt fund scheme may invest the balance amount in equity shares, convertibles including mezzanine financing instruments of companies engaged in infrastructure, infrastructure development projects, whether listed on a recognized stock exchange in India or not; or money market instruments and bank deposits.

(3) The investment restrictions shall be applicable on the life-cycle of the infrastructure debt fund scheme and shall be reckoned with reference to the total amount raised by the infrastructure debt fund scheme.

(4) No mutual fund shall, under all its infrastructure debt fund schemes, invest more than thirty per cent of its net assets in the debt securities or assets of any single infrastructure company or project or special purpose vehicles which are created for the purpose of facilitating or promoting investment in infrastructure or bank loans in respect of completed and revenue generating projects of any single infrastructure company or project or special purpose vehicle.

(5) An infrastructure debt scheme shall not invest more than 30% of the net assets of the scheme in debt instruments or assets of any single infrastructure company or project or special purpose vehicles which are created for the purpose of facilitating or promoting investment in infrastructure or bank loans in respect of completed and revenue generating projects of any single infrastructure company or project or special purpose vehicle.

(5A) The overall investments by an infrastructure debt fund scheme in debt instruments or assets of infrastructure companies or projects or special purpose vehicles, which are created for the purpose of facilitating or promoting investment in infrastructure or bank loans in respect of completed and revenue generating projects of infrastructure companies or projects or special purpose vehicles, which are rated below investment grade or are unrated, shall not exceed 30% of the net assets of the scheme:

Provided that the overall investment limit may increase up to 50% of the net assets of the scheme with the prior approval of the trustees and the board of the asset management company.

(6) No infrastructure debt fund scheme shall invest in –

(i) Any unlisted security of the sponsor or its associate or group company;

(ii) Any listed security issued by way of preferential allotment by the sponsor or its associate or group company;

(iii) Any listed security of the sponsor or its associate or group company or bank loan in respect of completed and revenue generating projects of infrastructure companies or special purpose vehicles of the sponsor or its associate or group companies, in excess of twenty five per cent of
the net assets of the scheme, subject to approval of trustees and full disclosures to investors for investments made within the aforesaid limits; or

(iv) any asset or securities owned by the sponsor or asset management company or their associates in excess of 30% of the net assets of the scheme, provided that-

(a) such investment is in assets or securities not below investment grade;

(b) the sponsor or its associates retains at least 30% of the assets or securities, in which investment is made by the scheme, till the assets or securities are held in the scheme portfolio; and

(c) approval for such investment is granted by the trustees and full disclosures are made to the investors regarding such investment.

Valuation of assets and declaration of net asset value

49Q. (1) The assets held by an infrastructure debt fund scheme shall be valued “in good faith” by the asset management company on the basis of appropriate valuation methods based on principles approved by the trustees.

(2) The valuation shall be documented and the supporting data in respect of each security so valued shall be preserved at least for a period of five years after the expiry of the scheme.

(3) The methods used to arrive at values ‘in good faith’ shall be periodically reviewed by the Trustees and by the statutory auditor of the mutual fund.

(4) The valuation policy approved by the board of asset management company shall be disclosed in the scheme information document.

(5) The net asset value of every infrastructure debt fund scheme shall be calculated and declared at least once in each quarter.

Duties of asset management company

49R. (1) The asset management company shall lay down an adequate system of internal controls and risk management.

(2) The asset management company shall exercise due diligence in maintenance of the assets of an infrastructure debt fund scheme and shall ensure that there is no avoidable deterioration in their value.

(3) The asset management company shall record in writing, the details of its decision making process in buying or selling infrastructure companies’ assets together with the justifications for such decisions and forward the same periodically to trustees.

(4) The asset management company shall ensure that investment of funds of the Infrastructure Debt Fund schemes is not made contrary to provisions of this chapter and the trust deed.

(5) The asset management company shall obtain, wherever required under these regulations, prior
in-principle approval from the recognized stock exchange(s) where units are proposed to be listed.

(6) The asset management company shall institute such mechanisms as to ensure that proper care is taken for collection, monitoring and supervision of the debt assets by appointing a service provider having extensive experience thereof, if required.

Disclosures in offer document and other disclosures

49S. (1) The offer documents of infrastructure debt fund schemes shall contain disclosures which are adequate for investors to make informed investment decisions and such further disclosures as may be specified by the Board.

(2) The portfolio disclosures and financial results in respect of an infrastructure debt fund schemes shall contain such further disclosures as may be specified by the Board.

(3) Advertisements in respect of infrastructure debt fund schemes shall conform to such guidelines as may be specified by the Board.

Transactions by employees etc.

49T. (1) All transactions done by the trustees or the employees or directors of the asset management company or the trustee company in the investee companies shall be disclosed by them to the compliance officer within one month of the transaction.

(2) The compliance officer shall make a report thereon from the viewpoint of possible conflict of interest and shall submit it to the trustees with his recommendations, if any.

(3) The persons covered in sub-regulation (1) may obtain the views of the trustees before entering into the transaction in investee companies, by making a suitable request to them.

CHAPTER VII

GENERAL OBLIGATIONS

50. To maintain proper books of account and records, etc.

(1) Every asset management company for each scheme shall keep and maintain proper books of account, records and documents, for each scheme so as to explain its transactions and to disclose at any point of time the financial position of each scheme and in particular give a true and fair view of the state of affairs of the fund and intimate to the Board the place where such books of account, records and documents are maintained.

(2) Every asset management company shall maintain and preserve for a period of eight years its books of account, records and documents.

(3) The asset management company shall follow the accounting policies and standards as specified in Ninth Schedule so as to provide appropriate details of the scheme wise disposition of
the assets of the fund at the relevant accounting date and the performance during that period together with information regarding distribution or accumulation of income accruing to the unit holder in a fair and true manner.

**Financial year**

51. The financial year for all the schemes shall end as of March 31st of each year;

Provided that, for a new scheme commenced during a financial year, the disclosure and reporting requirements would apply for the period beginning from the date of its commencement and ending on March 31st of that financial year.

**Credit of exit load to scheme**

51A. The exit load charged, if any, after the commencement of the SEBI (Mutual Funds) (Second Amendment) Regulations, 2012, shall be credited to the scheme.

**52. Limitation on fees and expenses on issue of schemes**

(1) All expenses should be clearly identified and appropriated in the individual schemes.

(2) The asset management company may charge the scheme with investment and advisory fees which shall be fully disclosed in the offer document.

(3) Deleted

(4) In addition to the fees mentioned in sub-regulation (2), the asset management company may charge the scheme with the following expenses, namely:

   (a) Deleted

   (b) recurring expenses including:—

      (i) marketing and selling expenses including agents’ commission, if any;

      (ii) brokerage and transaction cost;

      (iii) registrar services for transfer of units sold or redeemed;

      (iv) fees and expenses of trustees;

      (v) audit fees;

      (vi) custodian fees;

      (vii) costs related to investor communication;

      (viii) costs of fund transfer from location to location;

      (ix) costs of providing account statements and dividend/redemption cheques and warrants;

      (x) insurance premium paid by the fund;

      (xi) winding up costs for terminating a fund or a scheme;
(xii) costs of statutory advertisements;
(xiia) in case of a gold exchange traded fund scheme, recurring expenses incurred towards storage and handling of gold;
(xiib) in case of a capital oriented scheme, rating fees;
(xiic) in case of a real estate mutual fund scheme, insurance premia and costs of maintenance of the real estate assets (excluding costs of development of such assets) over and above the expenses specified in regulation 52 to the extent disclosed in the offer document;
(xiid) listing fees, in case of schemes listed on a recognised stock exchange; and
(xiie) in case of schemes investing in exchange traded commodity derivatives, recurring expenses incurred towards storage and handling of the underlying goods, due to physical settlement of such contracts.
(xiii) such other costs as may be approved by the Board.

(5) Any expense other than those specified in sub-regulations (2) and (4) shall be borne by the asset management company or trustee or sponsors.

(5A) In case of a scheme other than an index fund scheme or an exchange traded fund, where, as per the scheme information document, the scheme will invest a minimum of sixty-five per cent of its net assets in equity and equity related instruments, the scheme will be considered as equity oriented scheme for the purpose of limits of total expense ratio as specified in these regulations.

(6) The total expense ratio of the scheme excluding issue or redemption expenses, whether initially borne by the mutual fund or by the asset management company, but including the investment management and advisory fee shall be subject to the following limits:—

(a) in case of fund of funds scheme -

(i) investing in liquid schemes, index fund scheme and exchange traded funds, the total expense ratio of the scheme including weighted average of the total expense ratio levied by the underlying scheme(s) shall not exceed 1.00 per cent of the daily net assets of the scheme.

(ii) investing a minimum of sixty-five per cent of assets under management in equity oriented schemes as per scheme information document, the total expense ratio of the scheme including weighted average of the total expense ratio levied by the underlying scheme(s) shall not exceed 2.25 per cent of the daily net assets of the scheme.

(iii) investing in schemes other than as specified in clause (a)(i) and (a)(ii) of this sub regulation, the total expense ratio of the scheme including weighted average of the total expense ratio levied by the underlying scheme(s) shall not exceed 2.00 per cent of the daily net assets of the scheme:
Provided that the total expense ratio to be charged over and above the weighted average of the total expense ratio of the underlying scheme shall not exceed two times the weighted average of the total expense ratio levied by the underlying scheme(s), subject to the overall ceilings as stated at clause a(i), a(ii) and a(iii).

(b) in case of an index fund scheme or exchange traded fund, the total expense ratio of the scheme including the investment and advisory fees shall not exceed 1.00 per cent of the daily net assets.

(c) in case of open ended schemes other than as specified in clause (a) and (b) above, the total expense ratio of the scheme shall not exceed the following limits:

<table>
<thead>
<tr>
<th>Assets under management Slab (In ₹ crore)</th>
<th>Total expense ratio limits for equity oriented schemes</th>
<th>Total expense ratio limits for other than equity oriented schemes</th>
</tr>
</thead>
<tbody>
<tr>
<td>on the first ₹ 500 crores of the daily net assets</td>
<td>2.25%</td>
<td>2%</td>
</tr>
<tr>
<td>on the next ₹ 250 crores of the daily net assets</td>
<td>2%</td>
<td>1.75%</td>
</tr>
<tr>
<td>on the next ₹ 1,250 crores of the daily net assets</td>
<td>1.75%</td>
<td>1.50%</td>
</tr>
<tr>
<td>on the next ₹ 3,000 crores of the daily net assets</td>
<td>1.60%</td>
<td>1.35%</td>
</tr>
<tr>
<td>on the next ₹ 5,000 crores of the daily net assets</td>
<td>1.50%</td>
<td>1.25%</td>
</tr>
<tr>
<td>On the next ₹ 40,000 crores of the daily net assets</td>
<td>Total expense ratio reduction of 0.05% for every increase of ₹ 5,000 crores of daily net assets or part thereof.</td>
<td></td>
</tr>
<tr>
<td>On balance of the assets</td>
<td>1.05%</td>
<td>0.80%</td>
</tr>
</tbody>
</table>

(d) in case of close ended and interval schemes,

(i) the total expense ratio of equity oriented scheme(s) shall not exceed 1.25 per cent of the daily net assets of the scheme.

(ii) the total expense ratio of close ended and interval scheme(s) other than schemes specified in clause d (i) above shall not exceed 1.00 per cent of the daily net assets of the scheme.

(6A) In addition to the limits specified in sub-regulation (6), the following costs or expenses may be charged to the scheme, namely-

(a) brokerage and transaction costs which are incurred for the purpose of execution of trade and is included in the cost of investment, not exceeding 0.12 per cent in case of cash market transactions and 0.05 per cent in case of derivatives transactions;
(b) expenses not exceeding of 0.30 per cent of daily net assets, if the new inflows from such cities as specified by the Board from time to time are at least -

(i) 30 per cent of gross new inflows in the scheme, or;

(ii) 15 per cent of the average assets under management (year to date) of the scheme, whichever is higher:

**Provided that** if inflows from such cities is less than the higher of sub-clause (i) or sub-clause (ii), such expenses on daily net assets of the scheme shall be charged on proportionate basis:

**Provided further** that expenses charged under this clause shall be utilised for distribution expenses incurred for bringing inflows from such cities:

**Provided further** that amount incurred as expense on account of inflows from such cities shall be credited back to the scheme in case the said inflows are redeemed within a period of one year from the date of investment;

(c) additional expenses, incurred towards different heads mentioned under sub-regulations (2) and (4), not exceeding 0.05 per cent of daily net assets of the scheme or as specified by the Board:

**Provided that** such additional expenses shall not be charged to the schemes where the exit load is not levied or applicable.

(7) Any expenditure in excess of the limits specified in sub-regulations (6) and (6A) shall be borne by the asset management company or by the trustee or sponsors.

(8) The provisions of sub-regulations (3), (4), (5) and (6) will come into effect from 1st April, 1997 for those schemes of mutual funds which have been launched prior to notification of these regulations.

**Declaration of dividends**

52A. A mutual fund may declare dividends in accordance with the offer document and subject to such Guidelines as may be specified by the Board.

**Despatch of warrants and proceeds**

53. Every mutual fund and asset management company shall,

(a) despatch to the unit holders the dividend warrants within 30 days of the declaration of the dividend;

(b) despatch the redemption or repurchase proceeds within 10 working days from the date of redemption or repurchase;

(c) in the event of failure to despatch the redemption or repurchase proceeds within the period specified in sub-clause (b), the asset management company shall be liable to pay interest to the
unit holders at such rate as may be specified by the Board for the period of such delay;

(d) not withstanding payment of such interest to the unit-holders under sub clause (c), the asset management company may be liable for penalty for failure to despatch the redemption or repurchase proceeds within the stipulated time.

**Annual Report**

54. Every mutual fund or the asset management company shall prepare in respect of each financial year an annual report and annual statement of accounts of the schemes and the fund as specified in Eleventh Schedule.

**Auditor’s report**

55. (1) Every mutual fund shall have the annual statement of accounts audited by an auditor who is not in any way associated with the auditor of the asset management company.

**Explanation:** For the purposes of this sub-regulation and regulation 66 “auditor” means a person who is qualified to audit the accounts of a company under section 224 of the Companies Act, 1956 (1 of 1956).

(2) An auditor shall be appointed by the trustees.

(3) The auditor shall forward his report to the trustees and such report shall form part of the Annual Report of the mutual fund.

(4) The auditor’s report shall comprise the following:—

(a) a certificate to the effect that,—

(i) he has obtained all information and explanations which, to the best of his knowledge and belief, were necessary for the purpose of the audit ;

(ii) the balance sheet and the revenue account give a fair and true view of the scheme, state of affairs and surplus or deficit in the Fund for the accounting period to which the Balance Sheet or, as the case may be, the Revenue Account relates ;

(iii) the statement of account has been prepared in accordance with accounting policies and standards as specified in the Ninth Schedule.

**Providing copies of Annual report and summary thereof**

56. (1) The scheme wise Annual Report of a mutual fund or an abridged summary thereof shall be provided to all unit holders as soon as may be but not later than four months from the date of closure of the relevant accounts year in the manner specified by the Board.

(2) The Annual Report and abridged summary thereof shall contain details as specified in the Eleventh Schedule and such other details as are necessary for the purpose of providing a true and fair view of the operations of the mutual fund:
Provided that the abridged scheme wise Annual Report provided to the unit holders is in the format prescribed by the Board in this regard.

(3) Notwithstanding anything contained in sub-regulation (1), the mutual fund shall provide physical copy of the abridged summary of the Annual Report without any cost, if a request through any mode is received from a unit holder.

(3A) The report provided in abridged summary form as per sub-regulation (1) shall carry a note that for unit holders of a scheme full Annual Report shall be available for inspection at the Head Office of the mutual fund and a copy thereof shall be made available to unit holder on payment of such nominal fees as may be specified by the mutual fund.

(4) The asset management company shall display the link of the full scheme wise annual reports prominently on their website.

**Annual Report to be forwarded to the Board**

57. Every mutual fund shall within four months from the date of closure of each financial year forward to the Board a copy of the Annual Report and other information including details of investments and deposits held by the mutual fund so that the entire scheme wise portfolio of the mutual funds is disclosed to the Board.

**Periodic and continual disclosures**

58. (1) The mutual fund, the asset management company, the trustee, custodian, sponsor of the mutual fund shall make such disclosures or submit such documents as they may be called upon to do so by the Board

(2) Without prejudice to the generality of sub-regulation (1), the mutual fund shall furnish the following periodic reports to the Board, namely:

(a) copies of the duly audited annual statements of accounts including the balance sheet and the profit and loss account for the fund and in respect of each scheme, once a year;

(b) a copy of six monthly unaudited accounts;

(c) a quarterly statement of movements in the net assets for each of the schemes of the fund;

(d) a quarterly portfolio statement, including changes from the previous periods, for each scheme.

(3) No sale of units of any scheme of a mutual fund shall be made by the trustees or an asset management company unless accompanied by documents which contain information which is adequate for the investors to take an informed decision.

**Half-yearly Disclosures**

59. (1) A mutual fund and asset management company shall within one month from the close of each half year, that is on 31st March and on 30th September, host a soft copy of its unaudited
financial results on their website:

Provided that the half-yearly unaudited report referred to in this sub-regulation shall contain details as specified in Twelfth Schedule and such other details as are necessary for the purpose of providing a true and fair view of the operations of the mutual fund.

(2) A mutual fund and asset management company shall publish an advertisement disclosing the hosting of such financial results on their website, in at least one English daily newspaper having nationwide circulation and in a newspaper having wide circulation published in the language of the region where the Head Office of the mutual fund is situated.

Statement of Portfolio

59A. A mutual fund shall before the expiry of ten days from the close of each half year (i.e., 31st March and 30th September), send to all unit holders a complete statement of its scheme portfolio, in the manner specified by the Board.

Disclosures to the investors

60. The trustee shall be bound to make such disclosures to the unit holders as are essential in order to keep them informed about any information which may have an adverse bearing on their investments.

CHAPTER VIII

INSPECTION AND AUDIT

Board’s right to inspect and investigate

61. (1) The Board may appoint one or more persons as inspecting officer to undertake the inspection of the books of account, records, documents and infrastructure, systems and procedures or to investigate the affairs of a mutual fund, the trustees and asset management company for any of the following purposes, namely:

(a) to ensure that the books of account are being maintained by the mutual fund, the trustees and asset management company in the manner specified in these regulations;

(b) to ascertain whether the provisions of the Act and these regulations are being complied with by the mutual fund, the trustees and asset management company;

(c) to ascertain whether the systems, procedures and safeguards followed by the mutual fund are adequate;

(d) to ascertain whether the provisions of the Act or any rules or regulations made thereunder have been violated;
(e) to investigate into the complaints received from the investors or any other person on any matter having a bearing on the activities of the mutual funds, trustees and asset management company;

(f) to suo motu ensure that the affairs of the mutual fund, trustees or asset management company are being conducted in a manner which is in the interest of the investors or the securities market.

Notice before inspection and investigation

62. (1) Before ordering an inspection or investigation under regulation 61 the Board shall give not less than ten days notice to the mutual fund, asset management company or trustees as the case may be.

(2) Notwithstanding anything contained in sub-regulation (1), where the Board is satisfied that in the interest of the investors no such notice should be given, it may, by an order in writing direct that such inspection or investigation be taken up without such notice.

(3) During the course of inspection or investigation, the mutual fund, trustees or asset management company against whom the inspection or investigation is being carried out shall be bound to discharge his obligations as provided in regulation 63.

Obligations on inspection and investigation

63. (1) It shall be the duty of the mutual fund, trustees or asset management company whose affairs are being inspected or investigated, and of every director, officer and employee thereof, to produce to the inspecting officer such books, accounts, records, and other documents in its custody or control and furnish him such statements and information relating to the activities as mutual funds, trustees or asset management company, as the inspecting officer may require, within such reasonable period as the inspecting officer may specify.

(2) The mutual fund, trustees or asset management company shall allow the inspecting officer to have a reasonable access to the premises occupied by it or by any other person on its behalf and also extend reasonable facility for examining any books, records, documents and computer data in the possession of the mutual fund, trustees and asset management company or such other person and also provide copies of documents or other materials which in the opinion of the inspecting officer are relevant for the purpose of the inspection.

(3) The inspecting officer, in the course of inspection or investigation, shall be entitled to examine or record the statements of any director, officer, or employee of the mutual fund, trustees and asset management company. (4) It shall be the duty of every director, officer, or employee of the mutual fund, asset management company or trustee to give to the inspecting officer all assistance in connection with the inspection or investigation, which the inspecting officer may reasonably require.
Submission of report to the Board

64. The inspecting officer shall, as soon as possible, on completion of the inspection or investigation submit a report to the Board:

Provided that if directed to do so by the Board, he may submit an interim report.

Action on inspection or investigation report

65. The Board or the Chairman shall after consideration of inspection or investigation report take such action as the Board or Chairman may deem fit and appropriate including action under Chapter V of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008.

Appointment of auditor

66. Without prejudice to the provisions of regulation 55, the Board shall have the power to appoint an auditor to inspect or investigate, as the case may be, into the books of account or the affairs of the mutual fund, trustee or asset management company:

Provided that the Auditor so appointed shall have the same powers of the inspecting officer as stated in regulation 61 and the obligation of the mutual fund, asset management company, trustee, and their respective employees in regulation 63, shall be applicable to the investigation under this regulation.

Payment of inspection fees to the Board

67. The Board shall be entitled to recover such expenses including fees paid to the auditors as may be incurred by it for the purposes of inspecting the books of account, records and documents of the mutual fund, the trustees and the asset management company.

CHAPTER IX

PROCEDURE FOR ACTION IN CASE OF DEFAULT

Liability for action in case of default

68. A mutual fund which—

(a) contravenes any of the provisions of the Act and these regulations;

(b) fails to furnish any information or furnishes wrong information relating to its activity as a mutual fund as required under these regulations;

(c) fails to submit periodical returns as required under these regulations;

(d) does not co-operate in any inquiry or inspection conducted by the Board;

(e) fails to comply with any directions of the Board issued under the provisions of the Act or the regulations;
(f) fails to resolve the complaints of the investors or fails to give a satisfactory reply to the Board in this behalf; (g) indulges in unfair trade practices in securities.

Explanation— For the purposes of this clause “unfair trade practices” has the same meaning as in the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995;

(h) is guilty of misconduct or improper or unbusinesslike or unprofessional conduct which is not in accordance with the Code of Conduct specified in the Fifth Schedule;

(i) asset management company fails to maintain the net worth in accordance with the provisions of regulation 21;

(j) fails to pay any fees;

(k) violates the conditions of registration;

(l) mutual fund, asset management company or trustees of that mutual fund does not carry out its obligations as specified in these regulations, shall be dealt with in the manner provided under Chapter V of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008.

69. to 74. Omitted

Action against intermediaries

75. The Board may initiate action for suspension or cancellation of registration of an intermediary holding a certificate of registration under section 12 of the Act who fails to exercise due diligence or to comply with the obligations under these regulations:

Provided that no such certificate of registration shall be suspended or cancelled unless the procedure specified in regulations applicable to such intermediary is complied with.

Action against mutual fund and/or asset management company

75A. Without prejudice to regulation 68, a mutual fund and/or asset management company shall be liable for action under the applicable provisions of the Act and the Regulations framed thereunder,–

(a) in case the advertisement issued is in contravention with the Advertisement Code specified in Sixth Schedule;

(b) in case the valuation of securities is in contravention of the Principles of Fair Valuation specified in Eighth Schedule.

Adjudication, etc.

76. (1) The Board may for the offences specified in sections 15A to 15E of the Act initiate action under section 15-I of the Act and in case of violation of any of the provisions of the Act or the regulations, initiate action under section 11, 11B or section 24 of the Act.
(2) The Board may in addition to suspension or cancellation of certificate, order suspension of launching of any scheme of a mutual fund for a period not exceeding one year for violation of any of the provisions of these regulations after following procedure under this Chapter.

(3) The Board may during the pendency of any proceeding of suspension or cancellation under this Chapter also order suspension for launching of any scheme not exceeding three months without following procedure under this Chapter:

Provided that no order shall be passed without giving an opportunity of hearing.

CHAPTER X

MISCELLANEOUS

Power of the Board to issue clarifications

77. In order to remove any difficulties in the application or interpretation of these regulations, the Board shall have the power to issue clarifications and guidelines in the form of notes or circulars which shall be binding on the sponsor, mutual funds, trustees, asset management companies and custodians.

Repeal and saving

78. (1) The Securities & Exchange Board of India (Mutual Funds) Regulations, 1993 are hereby repealed.

(2) Notwithstanding such repeal:

(a) anything done or any action taken or purported to have been done or taken, including registration or approval granted, fees collected, scheme announced, registration or approval, suspended or cancelled, any inquiry or investigation commenced under the said regulations, shall be deemed to have been done or taken under the corresponding provisions of these regulations;

(b) any application made to the Board under the said regulations and pending before it shall be deemed to have been made under the corresponding provisions of these regulations;

(c) any appeals preferred to the Central Government under the said regulations and pending before it shall be deemed to have been preferred under the corresponding provisions of these regulations.