CIRCULAR

CIR/IMD/DF/21/2012 September 13, 2012

All Mutual Funds/Asset Management Companies (AMCs)/
Trustee Companies/Boards of Trustees of Mutual Funds

Sir / Madam,

Sub: Steps to re-energise Mutual Fund Industry

In order to increase penetration of mutual fund products and to energise the distribution network while protecting the interest of investors, SEBI held a series of meetings with various stakeholders in the mutual fund industry. Mutual Fund Advisory Committee (MFAC) also deliberated and offered its recommendations on issues confronted by the industry. Pursuant to SEBI Board's approval to various recommendations, it has been decided to implement the following:

A. Total Expense Ratio (TER)

1. Additional TER can be charged up to 30 basis points on daily net assets of the scheme as per regulation 52 of SEBI (Mutual Funds) Regulations, 1996 (hereinafter referred to as Regulations), if the new inflows from beyond top 15 cities are at least (a) 30% of gross new inflows in the scheme or (b) 15% of the average assets under management (year to date) of the scheme, whichever is higher.

   In case inflows from beyond top 15 cities is less than the higher of (a) or (b) above, additional TER on daily net assets of the scheme shall be charged as follows:

$$\frac{\text{Daily net assets } \mathbf{X} \text{ 30 basis points } \mathbf{X} \text{ New inflows from beyond top 15 cities}}{365^{*} \ \mathbf{X} \text{ Higher of (a) or (b) above}}$$

* 366, wherever applicable.

The top 15 cities shall mean top 15 cities based on Association of Mutual Funds in India (AMFI) data on 'AUM by Geography – Consolidated Data for Mutual Fund Industry' as at the end of the previous financial year.

2. The additional TER on account of inflows from beyond top 15 cities so charged shall be clawed back in case the same is redeemed within a period of 1 year from the date of investment.

3. Mutual funds/AMCs shall make complete disclosures in the half yearly report of Trustees to SEBI regarding the efforts undertaken by them to increase geographical penetration of mutual funds and the details of opening of new branches, especially at locations beyond top 15 cities.

B. Service Tax

1. Mutual funds /AMCs may charge service tax on investment and advisory fees to the scheme in addition to the maximum limit of TER as prescribed in regulation 52 of the Regulations.

2. Service tax on other than investment and advisory fees, if any, shall be borne by the scheme within the maximum limit of TER as per regulation 52 of the Regulations.

3. Service tax on exit load, if any, shall be paid out of the exit load proceeds and exit load net of service tax, if any, shall be credited to the scheme.

4. Service tax on brokerage and transaction cost paid for asset purchases, if any, shall be within the limit prescribed under regulation 52 of the Regulations.

C. Single plan structure for mutual fund schemes

1. Mutual funds/AMCs shall launch schemes under a single plan and ensure that all new investors are subject to single expense structure.

2. Existing schemes with multiple plans based on the amount of investment (i.e. retail, institutional, super-institutional, etc) shall accept fresh subscriptions only under one plan.

3. Other plans will continue till the existing investors remain invested in the plan.

D. Separate option for direct investments

1. Mutual funds/AMCs shall provide a separate plan for direct investments, i.e., investments not routed through a distributor, in existing as well as new schemes.

2. Such separate plan shall have a lower expense ratio excluding distribution expenses, commission, etc., and no commission shall be paid from such plans. The plan shall also have a separate NAV.

E. Distribution of mutual fund products

1. In terms of SEBI Circular no. CIR No.10 / 310 /01 dated September 25, 2001, MFD/CIR/20/23230/2002 dated November 28, 2002, SEBI/MFD/CIR No.01/6693/03 dated April 03, 2003, SEBI/IMD/CIR No.2/254/04 dated February 04, 2004 and Cir / IMD / DF / 5 / 2010 dated June 24, 2010, agents/ distributors of mutual fund units are required to obtain certification from the National Institute of Securities Markets (NISM) and registration from AMFI.

2. A new cadre of distributors, such as postal agents, retired government and semi-government officials (class III and above or equivalent) with a service of at least 10 years, retired teachers with a service of at least 10 years, retired bank officers with a service of at least 10 years, and other similar persons (such as Bank correspondents) as may be notified by AMFI/AMC from time to time, shall be allowed to sell units of simple and performing mutual fund schemes.

3. Simple and performing mutual fund schemes shall comprise of diversified equity schemes, fixed maturity plans (FMPs) and index schemes and should

have returns equal to or better than their scheme benchmark returns during each of the last three years.

4. These new cadre of distributors would require a simplified form of NISM certification and AMFI Registration.

5. AMFI shall create a unique identity number of the employee/ relationship manager/ sales person of the distributor interacting with the investor for the sale of mutual fund products, in addition to the AMFI Registration Number (ARN) of the distributor.

6. The application form for mutual fund schemes shall have provision for disclosing the unique identity number of such sales personnel along with the ARN of the distributor.

F. Investor Education and Awareness

1. Mutual Funds/AMCs shall annually set apart at least 2 basis points on daily net assets within the maximum limit of TER as per regulation 52 of the Regulations for investor education and awareness initiatives. Mutual Funds shall make complete disclosures in the half yearly trustee report to SEBI regarding the investor education and awareness initiatives undertaken.

G. Harmonizing applicability of NAV across schemes

1. In partial modification to SEBI circular no. SEBI/IMD/CIR No. 11/142521/08 dated October 24, 2008 and Cir/IMD/DF/19/2010 dated November 26, 2010, in respect of purchase of units of mutual fund schemes (other than liquid schemes), the closing NAV of the day on which the funds are available for utilization shall be applicable for application amount equal to or more than ₹ 2 lakh, irrespective of the time of receipt of such application.

H. Monthly Portfolio Disclosures

1. Mutual funds/AMCs shall disclose portfolio (along with ISIN) as on the last day of the month for all their schemes on their respective website on or before the tenth day of the succeeding month in a user-friendly and downloadable format (preferably in a spreadsheet).

2. The format for monthly portfolio disclosure shall be same as that of half yearly portfolio disclosures.

3. Mutual funds/AMCs may disclose additional information (such as ratios, etc.) subject to compliance with the Advertisement Code.

4. In this regard, SEBI circular no. SEBI/IMD/CIR No. 15/157701/2009 dated March 19, 2009 stands withdrawn.

I. Cash investments in mutual funds

1. In partial modification to SEBI Circular no. MFD/CIR/15/19133/2002 dated September 30, 2002 and in order to help enhance the reach of mutual fund products amongst small investors, who may not be tax payers and may not have PAN/bank accounts, such as farmers, small traders/businessmen/workers, cash transactions in mutual funds to the extent of ₹20,000/- per investor, per mutual fund, per financial year shall be allowed subject to (i) compliance with Prevention of Money Laundering Act, 2002 and Rules framed there under; the SEBI Circular(s) on Anti Money Laundering (AML) and other applicable AML rules, regulations and guidelines and (ii) sufficient systems and procedures in place.

2. Repayment in the form of redemptions, dividend, etc. with respect to aforementioned investments shall be paid only through banking channel.

J. Prudential limits and disclosures on portfolio concentration risk in debt-oriented mutual fund schemes

1. Mutual Funds/AMCs shall ensure that total exposure of debt schemes of mutual funds in a particular sector (excluding investments in Bank CDs, CBLO, G-Secs, T-Bills and AAA rated securities issued by Public Financial Institutions and Public Sector Banks) shall not exceed 30% of the net assets of the scheme.

2. Existing schemes shall comply with the aforementioned requirement within a period of one year from the date of issue of this circular. During this one year, total exposure of existing debt schemes of mutual funds in a particular sector should not increase from the levels existing (if above 30%) as on the date of issuance of this circular.

3. Appropriate disclosures shall be made in Scheme Information Document (SID) and Key Information Memorandum (KIM) of debt schemes.

K. Transaction Charges

1. In partial modification to SEBI circular no. Cir/ IMD/ DF/13/ 2011 dated August 22, 2011, distributors shall have also the option to either opt in or opt out of levying transaction charge based on type of the product.

L. Disclosure with respect to Half Yearly Financial Results

1. Mutual funds/AMCs shall make half yearly disclosures of their unaudited financial results on their respective website in a user-friendly and downloadable format (preferably in a spreadsheet).

M. Additional Disclosures

1. In partial modification to SEBI circular no. Cir/ IMD/ DF/13/ 2011 dated August 22, 2011, Mutual Funds/AMCs shall, in addition to the total commission and expenses paid to distributors, make additional disclosures regarding

distributor-wise gross inflows (indicating whether the distributor is an associate or group company of the sponsor(s) of the mutual fund), net inflows, average assets under management and ratio of AUM to gross inflows on their respective website on an yearly basis.

In case the data mentioned above suggests that a distributor has an excessive portfolio turnover ratio, i.e. more than two times the industry average, AMCs shall conduct additional due-diligence of such distributors.

2. Mutual Funds / AMCs shall also submit the data mentioned in paragraph 1 above to AMFI and the consolidated data in this regard shall be disclosed on AMFI website.

N. Applicability of the Circular

1. All the paras except para D will become effective from October 1, 2012.
2. Para D of the circular will be effective from January 1, 2013.
3. Necessary amendments to the Regulations to give effect to the contents in the circular would be separately notified.

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

Yours faithfully,

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