



**CIRCULAR**

**CIR/IMD/DF/24/2012**

**November 19, 2012**

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

Sir/ Madam,

**Subject: Circular on Mutual Funds**

**A. Amendments to SEBI (Mutual Funds) Regulations, 1996**

1. Please find enclosed a copy of the gazette notification No. LAD-NRO/GN/2012-13/17/21502 dated September 26, 2012 pertaining to Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2012, for your information and implementation.

**B. Prudential limits and disclosures on portfolio concentration risk in debt oriented mutual fund schemes**

1. Presently, the guidelines issued on prudential limit for sectoral exposure in debt oriented mutual fund schemes put a limit of 30% at the sector level. However, in light of the important role played by the Housing Finance Companies (HFCs) in the housing sector, it has been decided that an additional exposure not exceeding 10% of net assets of the scheme shall be allowed only to HFCs as part of financial services sector for prudential limits in debt oriented schemes.
2. In partial modification to SEBI Circular No.CIR/IMD/DF/21/2012 dated September 13, 2012, clause 1 of Para (J) shall read as under:

*"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;*

*Provided that an additional exposure to financial services sector (over and above the limit of 30%) not exceeding 10% of the net assets of the scheme shall be allowed by way of increase in exposure to Housing Finance Companies (HFCs) only;*

*Provided further that the additional exposure to such securities issued by HFCs are rated AA and above and these HFCs are registered with National Housing Bank (NHB) and the total investment/ exposure in HFCs shall not exceed 30% of the net assets of the scheme."*

### **C. Brokerage and Transaction Cost**

1. In order to align with the regulation 52(6A)(a) of the SEBI (Mutual Funds) Regulations 1996, the provisions of Para-B(4) of SEBI Circular No.CIR/IMD/DF/21/2012 dated September 13, 2012 is modified, and the revised provisions shall read as under:

*"Service tax on brokerage and transaction cost paid for execution of trade, if any, shall be within the limit prescribed under regulation 52 of the Regulations."*

2. It is clarified that the brokerage and transaction cost incurred for the purpose of execution of trade may be capitalized to the extent of 12bps and 5bps for cash market transactions and derivatives transactions respectively. Any payment towards brokerage and transaction cost, over and above the said 12 bps and 5bps for cash market transactions and derivatives transactions respectively may be charged to the scheme within the maximum limit of Total Expense Ratio (TER) as prescribed under regulation 52 of the SEBI (Mutual Funds) Regulations, 1996. Any expenditure in



excess of the said prescribed limit (including brokerage and transaction cost, if any) shall be borne by the AMC or by the trustee or sponsors.

**D. Credit of exit load to scheme**

1. In terms of new regulation 51A of SEBI (Mutual Funds) Regulations, 1996, the exit load charged, if any, would be credited to the scheme. Accordingly, Para-4(c) of SEBI circular SEBI/IMD/CIR No.4/168230/09 dated June 30, 2009 stands withdrawn.

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,

**PARAG BASU**

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Encl.: As above

**THE GAZETTE OF INDIA**

**EXTRAORDINARY**

**PART –III – SECTION 4**

**PUBLISHED BY AUTHORITY**

**NEW DELHI, SEPTEMBER 26, 2012**

**SECURITIES AND EXCHANGE BOARD OF INDIA**

**NOTIFICATION**

**Mumbai, the 26<sup>th</sup> September, 2012**

**SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS)  
(SECOND AMENDMENT) REGULATIONS, 2012.**

No. LAD-NRO/GN/2012-13/17/21502 - In exercise of the powers conferred under section 30 of the Securities and Exchange Board of India Act, 1992 (15 of 1992), the Board hereby makes the following regulations to amend the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, namely:-

1. These regulations may be called the Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2012.
2. These regulations shall come into force on the first day of October, 2012.
3. In the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 –
  - i. in regulation 48, sub-regulation (2) and the proviso shall be substituted with the following, namely -

"(2) The Net Asset Value of the scheme shall be calculated on daily basis and published in at least two daily newspapers having circulation all over India."
  - ii. after regulation 51, the following new regulation shall be inserted, namely-

**“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.”

iii. in regulation 52,-

A. sub- regulation (2) shall be substituted with the following, namely-

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

B. in sub-regulation (4), the words “mutual fund” shall be substituted with the word “scheme”.

C. in sub-regulation (6),-

I. for clause (a), the following shall be substituted, namely-

“(a) in case of a fund of funds scheme, the total expenses of the scheme including weighted average of charges levied by the underlying schemes shall not exceed 2.50 per cent of the daily net assets of the scheme.”.

II. in clause (b), the words “weekly average” shall be substituted with the words “daily”.

III. in clause (c), the words "or average weekly" and “or weekly average” wherever appearing shall be omitted.

D. after sub-regulation (6), the following new sub-regulation shall be inserted, namely-

"(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 0.20 per cent of daily net assets of the scheme.”.

D. in sub-regulation (7), the words, symbols and number "sub-regulation (6)" shall be substituted with the words, symbols and numbers "sub-regulations (6) and (6A)".

- iv. for regulation 59, the following shall be substituted, namely-  
“**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 31<sup>st</sup> March and on 30<sup>th</sup> 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 atleast 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.”.

- v. In Twelfth Schedule, in serial number 6.5, the words and symbols "daily/weekly average" wherever appearing shall be substituted with the word "daily".

**U. K. SINHA**  
**CHAIRMAN**  
**SECURITIES AND EXCHANGE BOARD OF INDIA**

**Footnotes:-**

1. The Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, the Principal Regulations, were published in the Gazette of India on December 9, 1996 vide S.O. No. 856 (E).

2. The Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 were subsequently amended –

(a) on April 15, 1997 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 1997 vide S.O. No.327 (E).

- (b) on January 12, 1998 by the Securities and Exchange Board of India (Mutual Funds)(Amendment) Regulations, 1998 vide S.O. No.32 (E).
- (c) on December 08, 1999 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 1999 vide S.O. No.1223 (E).
- (d) on March 14, 2000 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2000 vide S.O. No.235 (E).
- (e) on March 28, 2000 by the Securities and Exchange Board of India (Appeal to the Securities Appellate Tribunal) (Amendment) Regulations, 2000 vide S.O. No.278 (E).
- (f) on May 22, 2000 by the Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2000 vide S.O. No.484 (E).
- (g) on January 23, 2001 by the Securities and Exchange Board of India (Mutual Funds)(Amendment) Regulations, 2001 vide S.O. No.69 (E).
- (h) on May 29, 2001 by the Securities and Exchange Board of India (Investment Advice by Intermediaries) (Amendment) Regulations, 2001 vide S.O. No.476 (E).
- (i) on July 23, 2001 by the Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2001 vide S.O. No.698 (E).
- (j) on February 20, 2002 by the Securities and Exchange Board of India (Mutual Funds)(Amendment) Regulations, 2002 vide S.O. No.219 (E).
- (k) on June 11, 2002 by the Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2002 vide S.O. No.625 (E).
- (l) on July 30, 2002 by the Securities and Exchange Board of India (Mutual Funds) (Third Amendment) Regulations, 2002 vide S.O. No.809 (E).
- (m) on September 9, 2002 by the Securities and Exchange Board of India (Mutual Funds)(Fourth Amendment) Regulations, 2002 vide S.O. No.956 (E).
- (n) on September 27, 2002 by the Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 vide S.O. No.1045 (E).
- (o) on May 29, 2003 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2003 vide S.O. No. 632 (E).
- (p) on January 12, 2004 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2004 vide F.No. SEBI/LAD/DOP/4/2004.



- (q) on March 10, 2004 by the Securities and Exchange Board of India (Criteria for Fit and Proper Person) Regulations, 2004 vide S.O. No. 398 (E).
- (r) on January 12, 2006 by the Securities and Exchange Board of India (Mutual Funds)(Amendment) Regulations, 2006 vide S.O. No. 38 (E).
- (s) on May 22, 2006 by the Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2006 vide S.O. No. 783 (E).
- (t) on August 3, 2006 by the Securities and Exchange Board of India (Mutual Funds) (Third Amendment) Regulations, 2006 vide S.O. No. 1254 (E).
- (u) on December 27, 2006 by the Securities and Exchange Board of India (Mutual Funds) (Fourth Amendment) Regulations, 2006 vide F. No. SEBI/LAD/DOP/82534/2006.
- (v) on December 27, 2006 by the Securities and Exchange Board of India (Mutual Funds) (Fifth Amendment) Regulations, 2006 vide F. No. SEBI/LAD/DOP/83065/2006.
- (w) on May 28, 2007 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2007 vide F. No. 11/LC/GN/2007/2518.
- (x) on October 31, 2007 by the Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2007 vide F. No. 11/LC/GN/2007/4646.
- (y) on March 31, 2008 by the Securities and Exchange Board of India (Payment of Fees) (Amendment) Regulations, 2008 vide F. No. 11/LC/GN/2008/21669.
- (z) on April 16, 2008 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2008 vide F. No. LADNRO/ GN/2008/03/123042.
- (za) on May 22, 2008 by the Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2008 vide No. LADNRO/GN/2008/09/126202.
- (zb) on September 29, 2008 by the Securities and Exchange Board of India (Mutual Funds) (Third Amendment) Regulations, 2008 vide No. LADNRO/ GN/2008/24/139426.
- (zc) on April 8, 2009 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2009 vide No. LAD-NRO/GN/2009-10/01/159601.
- (zd) on June 5, 2009 by the Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2009 vide No. LAD- NRO/GN/2009-10/07/165404.
- (ze) on July 29, 2010 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2010 vide No. LAD-NRO/GN/2010-11/13/13945.
- (zf) on August 30, 2011 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2011 vide No. LAD-NRO/GN/2011-12/27668.

(zg) on February 21, 2012 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2012 vide No. LAD-NRO/GN/2011-12/38/4290.

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