



CIRCULAR

SEBI/HO/IMD/DF2/CIR/P/2016/42

March 18, 2016

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

Sir/ Madam,

Subject: Circular on Mutual Funds

A. Consolidated Account Statement:

Consolidated Account Statement (CAS), issued to investors in accordance with Regulation 36(4) of SEBI (Mutual Funds) Regulations, 1996 and circulars thereof, at present provides information in terms of name of scheme/s where the investor has invested, number of units held and its market value, among other details. To increase transparency of information to investors, it has been decided that:

1. Each CAS issued to the investors shall also provide the total purchase value / cost of investment in each scheme.
2. Further, CAS issued for the half-year(September/ March) shall also provide:
 - a. The amount of actual commission paid by AMCs/Mutual Funds (MFs) to distributors (in absolute terms) during the half-year period against the concerned investor's total investments in each MF scheme. The term 'commission' here refers to all direct monetary payments and other payments made in the form of gifts / rewards, trips, event sponsorships etc. by AMCs/MFs to distributors.
 - b. The scheme's average Total Expense Ratio (in percentage terms) for the half-year period, of both direct plan and regular plan, for each scheme where the concerned investor has invested in.

Such half-yearly CAS shall be issued to all MF investors, excluding those investors who do not have any holdings in MF schemes and where no commission against their investment has been paid to distributors, during the concerned half-year period.



B. Enhancing Scheme Related Disclosures:

In order to improve transparency as well as ease of access to Mutual Fund (MF) scheme related information, it has been decided that:

1. Mutual Funds shall provide the following additional disclosures in the offer documents (Scheme Information Document (SID) / Key Information Memorandum (KIM)) of Mutual Fund scheme (for existing scheme / new scheme, as applicable):
 - a. The tenure for which the fund manager has been managing the scheme shall be disclosed, along with the name of scheme's fund manager(s)
 - b. Scheme's portfolio holdings (top 10 holdings by issuer and fund allocation towards various sectors), along with a website link to obtain scheme's latest monthly portfolio holding
 - c. In case of FoF schemes, expense ratio of underlying scheme(s)
 - d. Scheme's portfolio turnover ratio
2. Further, the following additional disclosures shall be provided in SID of the MF scheme:
 - a. The aggregate investment in the scheme under the following categories:
 - i. AMC's Board of Directors
 - ii. Concerned scheme's Fund Manager(s) and
 - iii. Other key managerial personnel
 - b. Illustration of impact of expense ratio on scheme's returns (by providing simple example).
3. Separate SID / KIM for each MF scheme managed by AMC shall also be made available on MFs / AMCs website.
4. Each MF is required to have a dashboard on their website providing performance and key disclosures pertaining to each scheme managed by AMC. The information should include scheme's AUM, investment objective, expense ratios, portfolio details, scheme's past performance, among others. Such information shall be provided in a comparable, downloadable (spreadsheet) and machine readable format.



C. Disclosure Of Executive Remuneration:

With the underlying objective to promote transparency in remuneration policies so that executive remuneration is aligned with the interest of investors, MFs /AMCs shall make the following disclosures pertaining to a financial year on the MF/AMC website under a separate head – 'Remuneration':

1. Name, designation and remuneration of Chief Executive Officer (CEO), Chief Investment Officer (CIO) and Chief Operations Officer (COO) or their corresponding equivalent by whatever name called.
2. Name, designation and remuneration received of all employees of MF/AMC whose:
 - a. Annual remuneration was equal to or above INR 60 lakh for that year.
 - b. Monthly remuneration in the aggregate is not less than INR 5 lakh per month, if the employee is employed for a part of the financial year.
3. The ratio of CEO's remuneration to median remuneration of MF/AMC employees.
4. MF's total AAUM, debt AAUM and equity AAUM and rate of growth over last three years.

For this purpose, remuneration shall mean remuneration as defined in clause (78) of section 2 of the Companies Act, 2013. The AMCs/MFs shall disclose this information within one month from the end of the respective financial year (effective from FY 2015-16).

D. Internal Credit Risk Assessment:

In order to ensure that MFs / AMCs are able to carry out their own credit assessment of assets and reduce reliance on credit rating agencies, all MFs/ AMCs are required to have an appropriate policy and system in place to conduct an in-house credit risk assessment / due diligence before investing in fixed income products.

E. Deployment of NFO Proceeds in CBLO:

In partial amendment to clause 2(ii)(c) of SEBI circular dated March 15, 2010, Mutual funds are allowed to deploy NFO proceeds in CBLO before the closure of NFO period. However, AMCs shall not charge any investment management and advisory fees on funds deployed in CBLOs during the NFO period. The appreciation received from investment in CBLO shall be passed on to investors. Further, in case the minimum subscription amount is not garnered by the scheme during the NFO period, the interest earned upon investment of NFO proceeds in



CBLO shall be returned to investors, in proportion of their investments, along-with the refund of the subscription amount.

F. Soft-Dollar Arrangements:

Soft-dollar arrangement refers to an arrangement between AMCs and brokers in which the AMC executes trades through a particular broker and in turn the broker may provide benefits such as free research, hardware, software or even non-research-related services, etc., to the AMC. It may be noted that such arrangements between AMCs and brokers should be limited to only benefits (like free research report, etc.) that are in the interest of investors and the same should be suitably disclosed.

G. Revision of date of submission of MCR:

In partial amendment to point 2 of SEBI circular dated April 30, 2008; it has been decided that the Monthly Cumulative Report (MCR) shall be submitted to SEBI by 3rd working day of each month, instead of 3rd calendar day of each month.

H. Applicability of the Circular

1. Para A will be effective for CAS issued from October 1, 2016.
2. Para B and D will be effective from May 1, 2016.
3. Para C, F and G will be effective from April 1, 2016.
4. Para E will be applicable for NFOs launched on or after April 1, 2016.

This circular is issued in exercise of the powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act 1992, read with the provision of Regulation 77 of SEBI (Mutual Funds) Regulation, 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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