

**CHIEF GENERAL MANAGER
INVESTMENT MANAGEMENT DEPARTMENT**

SEBI/IMD/CIR No 18 / 198647 /2010

March 15 ,2010

All Mutual Funds/Asset Management Companies (AMCs)

Sir/Madam,

Sub: Circular for Mutual Funds

1. Brokerage and commission paid to associates

- i. Regulation 25 (8) of SEBI (Mutual Funds) Regulations, 1996 mandates that the payment of brokerage or commission, if any, to the sponsor or any of its associates, employees or their relatives, has to be disclosed in the half-yearly annual accounts of the mutual fund.
- ii. In order to standardize the said disclosures on brokerage and commission paid to associates/related parties/group companies of sponsor/Asset Management Company in the unaudited half yearly financial results, the abridged scheme wise annual report and the SAI, these disclosures shall henceforth be made in the format as prescribed in Annexure A.

2. Additional mode of payment through Applications Supported by Blocked Amount (hereinafter referred to as “ASBA”) in Mutual Funds and Reduction in New Fund offer (NFO) period

- i. In its continuous endeavor to make the public issue process efficient, SEBI had introduced ASBA facility which investors have been enjoying for subscription to public issue of equity capital of companies. It has been decided to extend ASBA facility to the investors subscribing to New Fund Offers (NFOs) of mutual fund schemes. It shall co-exist with the current process, wherein cheques/ demand drafts are used as a mode of payment. The banks which are in SEBI's [list](#) shall extend the same facility in case of NFOs of mutual fund schemes to all eligible investors in Mutual Fund units. Mutual Funds shall ensure that adequate arrangements are made by Registrar and Transfer Agents for the implementation of ASBA. Mutual Funds/AMCs shall make all relevant disclosures in this regard in the SAI. Also, SEBI circulars dated July 30, 2008, September 25, 2008 August 5, 2009 and December 30, 2009 related to ASBA shall be followed to the extent applicable.
- ii. Reduction of NFO Period-
 - a. In order to make NFO process efficient, it has been decided to reduce the NFO period to 15 days.
 - b. However, the NFO period in case of ELSS schemes shall continue to be governed by guidelines issued by Government of India.

- c. Mutual Funds/AMCs shall make investment out of the NFO proceeds only on or after the closure of the NFO period.
- d. The provisions of SEBI (Mutual Fund) Regulations, 1996 regarding NFO period would be suitably amended in due course. Further, paragraph 1 of SEBI Circular No. MFD/Cir No.9/120/2000 dated November 24, 2000 is as modified as under-

Initial offer period and time taken for allotment of units and dispatch of accounts statements

“It has been decided that the present limit of maximum period of 30 days in case of Open ended schemes and 45 days of close ended scheme shall be reduced to 15 days (except ELSS schemes). Mutual Funds/ AMCs shall use the NFO proceeds only on or after the closure of the NFO period. The mutual fund should allot units/ refund of money and dispatch statements of accounts within five business days from the closure of the NFO and all the schemes (except ELSS) shall be available for ongoing repurchase/sale/ trading within five business days of allotment”

- iii. **Applicability:** The Mutual Funds/AMCs have to compulsorily provide ASBA facility to the investors for all NFOs launched on or after July 01, 2010. The provisions mentioned at paragraph 2(ii) regarding reduction in NFO period shall also be applicable for all NFOs launched on or after July 01, 2010.

3. Non availability of Unit Premium Reserve for dividend distribution

- i. The Ninth and Eleventh Schedule of SEBI (Mutual Funds) Regulations provide the accounting policies to be followed for determining distributable surplus and accounting the sale and repurchase of units in the books of the Mutual Fund. In this regard, the format for Scheme Balance Sheet (including Abridged) provides for disclosure of Unit Premium Reserve.
- ii. It is clear from the above regulatory requirements that the Unit Premium Reserve, which is part of the sales price of units that is not attributable to realized gains, cannot be used to pay dividend. However, it is observed that some Mutual Funds are using Unit Premium Reserve for distribution of dividend. It is therefore reiterated that:
 - a. When units of an open-ended scheme are sold, and sale price is higher than face value of the unit, part of sale proceeds that represents unrealised gains shall be credited to a separate account (Unit Premium Reserve) and shall be treated at par with unit capital and the same shall not be utilized for the determination of distributable surplus.
 - b. When units of an open-ended scheme are sold, and sale price is less than face value of the unit, the difference between the sale price and face value shall be debited to distributable reserves and the dividend can be declared only when distributable reserves become positive after

adjusting the amount debited to reserves as per para 2(a) (ix) of Eleventh Schedule of SEBI (Mutual Funds) Regulations.

4. Role of Mutual Funds in Corporate Governance of Public Listed Companies

- i. The issue of the role of Mutual Funds in Corporate Governance of listed companies was considered by the Mutual Fund Advisory Committee. It was felt that mutual funds should play an active role in ensuring better corporate governance of listed companies.
- ii. It has been decided that henceforth, AMCs shall disclose their general policies and procedures for exercising the voting rights in respect of shares held by them on the website of the respective AMC as well as in the annual report distributed to the unit holders from the financial year 2010-11.
- iii. Further, the AMCs are also required to disclose on the website of the respective AMC as well as in the annual report distributed to the unit holders from the financial year 2010-11, the actual exercise of their proxy votes in the AGMs/EGMs of the investee companies in respect of the following matters
 - a. Corporate governance matters, including changes in the state of incorporation, merger and other corporate restructuring, and anti takeover provisions.
 - b. Changes to capital structure, including increases and decreases of capital and preferred stock issuances.
 - c. Stock option plans and other management compensation issues;
 - d. Social and corporate responsibility issues.
 - e. Appointment and Removal of Directors.
 - f. Any other issue that may affect the interest of the shareholders in general and interest of the unit-holders in particular.
- iv. The format for disclosure of voting by mutual funds in general meetings of listed companies is placed in Annexure B

5. Provision of charging of additional management fees by the Asset Management Companies in case of schemes launched on no load basis

- i. Consequent to SEBI Circular No. SEBI/IMD/CIR No. 4/ 168230/09 dated June 30, 2009 on “Mutual Funds- Empowering investors through transparency in payment of commission and load structure” which stipulated that “*There shall be no entry load for all mutual fund schemes*”, it is clarified that AMC shall not collect any additional management fees referred to in Regulation 52(3) of SEBI Mutual Funds Regulation, 1996. Necessary amendments to Regulation 52 will be notified in due course.
- ii. Mutual Fund Schemes to be launched including those for which observation letter have been issued under Regulation 29 of SEBI (Mutual Funds) Regulations, 1996 would be required to carry out the changes in Scheme Information Document and file the same with SEBI before the launch.

- iii. The provisions of SEBI (Mutual Fund) Regulations, 1996 in this regard would be suitably amended in due course

6. Fund of Funds Scheme

- i. It has been observed from the disclosures in the scheme information documents (SID) that Asset Management Companies (AMCs) have been entering into revenue sharing arrangements with offshore funds in respect of investments made on behalf of Fund of Fund schemes. These arrangements create conflict of interest.
- ii. It has been decided that henceforth AMCs shall not enter into any revenue sharing arrangement with the underlying funds in any manner and shall not receive any revenue by whatever means/head from the underlying fund. Any commission or brokerage received from the underlying fund shall be credited into concerned scheme's account.

7. Mutual Funds/Asset Management Companies shall comply with the above requirements in letter and spirit.

8. The above circulars are 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,

S. RAVINDRAN

Annexure A

Brokerage paid to associates/related parties/group companies of Sponsor/AMC

Name of associate /related parties/ group companies of Sponsor/ AMC	Nature of Association/ Nature of relation	Period covered *	Value of transaction (in Rs. Cr. & % of total value of transaction of the fund)		Brokerage (Rs Cr & % of total brokerage paid by the fund)	

Commission paid to associates/related parties/group companies of sponsor/AMC

Name of associate /related parties/ group companies of Sponsor/ AMC	Nature of Association/ Nature of relation	Period covered *	Business given (Rs. Cr. & % of total business received by the fund)		Commission paid (Rs & % of total commission paid by the fund)	

* The period covered shall be as following:

- SAI - Past three financial years including the current year
- Half Yearly Unaudited Financial Results – Current half year and previous half year
- Abridged Scheme wise Annual Report – Current year and previous year

The disclosures for the aforementioned period shall be furnished for each period in separate tables.

Annexure B

Management Proposals

Date	Type of Meeting (AGM / EGM)	Proposal	Management Recommendation	Vote (For / Against / Abstain)

Shareholder Proposals

Date	Type of Meeting (AGM / EGM)	Proposal	Management Recommendation	Vote (For / Against / Abstain)