



Securities and Exchange Board of India Guidelines on Mutual Funds

V.B. Karuna Moorthy, Research scholar, Periyar university, Salem.

Dr. N. Rajendhiran, Professor and Director, Periyar university, Salem.

Abstract

The Securities and Exchange Board of India (SEBI) is the designated regulatory body for the finance and investment markets in India. The board plays a vital role in maintaining stable and efficient financial and investment markets by creating and enforcing effective regulation in India's financial marketplace. India's SEBI is similar to the U.S. Securities and Exchange Commission (SEC). A mutual fund is an investment vehicle made up of a pool of funds collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and similar assets. Mutual funds are operated by money managers, who invest the fund's capital and attempt to produce capital gains and income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus.

Keywords: *Capital gain, Regulatory, Investment*

Analysis

Regulations of SEBI Guidelines In Mutual Fund Industry-Year Wise, May 15, 2015: "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."

December 30, 2014

"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."

May 06, 2014

"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."

August 19, 2013

- (I) In regulation 24, in clause (b), the following proviso shall be inserted, namely-

"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."

- (II) In regulation 26, in sub-regulation (2), the following proviso shall be inserted, namely-

"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."

June 19, 2013

In the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, —

i. In regulation 34, the following new proviso shall be inserted, namely,-

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

ii. In regulation 35,- a.in sub-regulation (3), the following proviso shall be inserted, namely,-

"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."

b. In sub-regulation (4), the following proviso shall be inserted, namely,-

"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. "

iii. In regulation 36,- a. in sub-regulation (1), after the proviso, the following new proviso shall be inserted, namely,-

"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."

b. In sub-regulation (2), the following proviso shall be inserted, namely,-

"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. "

April 16, 2013

In the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996,—

(i) In regulation 2, -



(A) In sub-regulation (q), - (l) for the symbol ";" the symbol ":" shall be substituted;

(II) The following new proviso shall be inserted, namely,-

"Provided that infrastructure debt fund schemes may raise monies through private placement of units, subject to the conditions specified in these regulations; "

(B) Sub-regulation (sa) shall be numbered as sub-regulation (sb) and any reference thereto in any regulation framed or any circular or guideline issued by the Board, shall be read accordingly;

(C) After sub-regulation (s), the following new sub-regulation shall be inserted, namely-

"(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;"

(ii) In regulation 49L, in clause (3), after sub clause (iii) the following new sub-clauses shall be inserted, namely,-

"(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."

(iii) After regulation 49N, the following new regulation shall be inserted, namely-

"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."

(iv) In regulation 49-O, in sub-regulation (1), -

(A) The words "interval period not longer than one month" shall be substituted with the words "specified transaction period of not more than forty five days";

(B) The full stop shall be substituted with the symbol

(C) The following proviso shall be inserted, namely-

"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."

(v) After regulation 49-O, a new sub-regulation shall be inserted, namely-

"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."

(vi) In regulation 49P, - (A) in sub-regulation (1) -

(I) For the full stop, the symbol ":" shall be substituted;

(II) The following new provisos shall be inserted, namely-

" 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."

(B) In sub-regulation (5), -

(I) After the words "or project or special purpose vehicle", a full stop shall be inserted;

(II) The symbols and words ", which are rated below investment grade or unrated:" shall be omitted;

(III) The proviso shall be omitted;

(C) After sub-regulation (5), the following new sub-regulation and proviso shall be inserted, namely, -

"(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 upto 50% of the net assets of the scheme with the prior approval of the trustees and the board of the asset management company." (D) in sub-regulation (6), for clause

(iv), The following shall be substituted, namely, -

(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 atleast 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."

(vii) In Second Schedule, in paragraph I, in item D, -

(A) After the words "Filing fees for offer documents" the words "and placement memoranda" shall be inserted;

(B) After the words "amount raised in the new fund offer" and before the symbol and words ", subject to a minimum of", the words and symbol "or by way of private placement, as the case may be" shall be inserted.



September 6, 2012

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) 15per cent of the average assets under management (year to date) of the scheme,

Which ever 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 March and on 30 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".

FEBRUARY 21, 2012

In the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996,—

(i) In regulation 2, for clause (b), the following shall be substituted, namely:—

(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;";

(ii) In regulation 25, after the sub - regulation (18), the following sub - regulations shall be inserted, namely:—

"(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."

(iii) in regulation 30,

(a) In- sub regulation (1),



1. The words, "in respect of every scheme" appearing after the word "Advertisement", and before the words, "shall be in conformity with" shall be omitted;

2. The symbols and figure, "(1)" shall be omitted;

(b) Sub-regulation (2) shall be omitted;

(iv) For regulation 47, the following shall be substituted, namely: – "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.";

(v) After regulation 75, the following regulation shall be inserted, namely:—

"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 there under, —

(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.";

(VI) For the Sixth Schedule, the following schedule shall be substituted, namely: —

"SIXTH SCHEDULE

Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 [Regulation 30]

ADVERTISEMENT CODE

(a) Advertisements shall be accurate, true, fair, clear, complete, unambiguous and concise.

(b) Advertisements shall not contain statements which are false, misleading, biased or deceptive, based on assumption/projections and shall not contain any testimonials or any ranking based on any criteria.

(c) Advertisements shall not be so designed as likely to be misunderstood or likely to disguise the significance of any statement. Advertisements shall not contain statements which directly or by implication or by omission may mislead the investor.

(d) Advertisements shall not carry any slogan that is exaggerated or unwarranted or slogan that is inconsistent with or unrelated to the nature and risk and return profile of the product.

(e) No celebrities shall form part of the advertisement.

(f) Advertisements shall not be so framed as to exploit the lack of experience or knowledge of the investors. Extensive use of technical or legal terminology or complex language and the inclusion of excessive details which may detract the investors should be avoided.

(g) Advertisements shall contain information which is timely and consistent with the disclosures made in the Scheme Information Document, Statement of Additional Information and the Key Information Memorandum.



(h) No advertisement shall directly or indirectly discredit other advertisements or make unfair comparisons.

(i) Advertisements shall be accompanied by a standard warning in legible fonts which states

Mutual Fund investments are subject to market risks, read all scheme related documents carefully." No addition or deletion of words shall be made to the standard warning.

(j) In audio-visual media based advertisements, the standard warning in visual and accompanying voice over reiteration shall be audible in a clear and understandable manner. For example, in standard warning both the visual and the voice over reiteration containing 14 words running for at least 5 seconds may be considered as clear and understandable."; (vii) in the Eighth Schedule,

(a) in the reference title, the word and number, "regulation 47" shall be substituted with the word and numbers "regulations 25(19), 47";

(b) the words and symbol "Mutual fund shall value its investments according to the following valuation norms:" appearing under the heading "Investment Valuation Norms", shall be omitted;

(c) after the heading "Investment Valuation Norms", the following sub-headings and clauses shall be inserted, namely:

"Principles of Fair Valuation

Mutual fund shall value its investments in accordance with the following overarching principles so as to ensure fair treatment to all investors

including existing investors as well as investors seeking to purchase or redeem units of mutual funds in all schemes at all points of time:

(a) The valuation of investments shall be based on the principles of fair valuation i.e. valuation shall be reflective of the realizable value of the securities/assets. The valuation shall be done in good faith and in true and fair manner through appropriate

valuation policies and procedures.

(b) The policies and procedures approved by the Board of the asset management company shall identify the methodologies that will be used for valuing each type of securities/assets held by the mutual fund schemes. Investment in new type of securities/assets by the mutual fund scheme shall be made only after establishment of the valuation methodologies for such securities with the approval of the Board of the asset management company.

(c) The assets held by the mutual funds shall be consistently valued according to the policies and procedures. The policies and procedures shall describe the process to deal with exceptional events where market quotations are no longer reliable for a particular security.

(d) The asset management company shall provide for the periodic review of the valuation policies and procedures to ensure the appropriateness and accuracy of



the methodologies used and its effective implementation in valuing the securities/assets. The Board of Trustee and the Board of asset management Company shall be updated of these developments at appropriate intervals. The valuation policies and procedures shall be regularly reviewed (at least once in a Financial Year) by an independent auditor to seek to ensure their continued appropriateness.

- (e) The valuation policies and procedures approved by the Board of asset management company should seek to address conflict of interest
- (f) Disclosure of the valuation policy and procedures (with regard to valuation of each category of securities/assets where the scheme will invest, situation where these methods will be used, process and methodology and impact of implementation of these methods, if any) approved by the Board of the asset management company shall be made in Statement of Additional Information, on the website of the asset management company mutual fund and at any other place where the Board may specify to ensure transparency of valuation norms to be adopted by asset management company.
- (g) The responsibility of true and fairness of valuation and correct NAV shall be of the asset management company, irrespective of disclosure of the approved valuation policies and

procedures i.e. if the established policies and procedures of valuation do not result in fair/appropriate valuation, the asset management company shall deviate from the established policies and procedures in order to value the assets/ securities at fair value Provided that any deviation from the disclosed valuation policy and procedures may be allowed with appropriate reporting to Board of Trustees and the Board of the asset management company and appropriate disclosures to investors.

- (h) The asset management company shall have policies and procedures to detect and prevent incorrect valuation.
- (i) Documentation of rationale for valuation including inter scheme transfers shall be maintained and preserved by the asset management company as per regulation 50 of these regulations to enable audit trail.
- (j) In order to have fairness in the valuation of debt and money market securities, the asset management company shall take in to consideration prices of trades of same security or similar security reported at all available public platform

In addition to the above, a mutual fund may value its investments according to the following Valuation Guidelines. In case of any conflict between the Principles of Fair Valuation as detailed above and Valuation Guidelines issued by the Board hereunder or elsewhere, the



Principles of Fair Valuation detailed above shall prevail.

Valuation Guidelines”;

(d) In sub-clause (ii) of clause 2, after the words and symbol “Board of the asset management company.” and before the words, “Such decision of the Board”, the following words and symbol shall be inserted, namely:—

“For example, non traded debt and money market securities of short term maturities, as may be specified by the Board from time to time, may be valued on amortization basis provided that such valuation shall be reflective of the fair value of the securities and all investors are treated fairly.”

Conclusion

SEBI is safeguarding the investors money by introducing lot of regulatory activities periodically. The main important concepts of mutual fund industry is to increase the growth value of funds. If any company is practicing unfair means in the industry, SEBI will strictly monitor and safeguard the customers interest towards mutual fund industry.

Reference:

www.sebi.gov.in