

## **SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996**

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**SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996**

In exercise of the powers conferred by section 30 read with clause (c) of sub-section (2) of section 11 of the Securities and Exchange Board of India Act, 1992 (15 of 1992), the Securities and Exchange

Board of India hereby makes the following regulations :-

CHAPTER 1  
PRELIMINARY

**1. Short title, application and commencement :-**

(1) These regulations may be called the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996.

(2) They shall come into force on the date of their publication in the Official Gazette.

**2. Definitions :-**

In these regulations, unless the context otherwise requires :-

(a) 'Act' means the Securities and Exchange Board of India Act, 1992 (15 of 1992);

(b) 'advertisement' includes every form of advertising, whether in a publication, by display of notices, signs, labels or by means of circulars, catalogues or other documents, by an exhibition of pictures or photographic films, by way of sound broadcasting or television, or in any other manner;

(c) "associate" includes a person,-

(i) who directly or indirectly, by himself, or in combination with relatives, exercises control over the asset management company or the trustee, as the case may be, or

(ii) in respect of whom the asset management company or the trustee, directly or indirectly, by itself, or in combination with other persons exercises a control, or

(iii) whose director, officer or employee is a director, officer or employee of the asset management company;

(d) 'asset management company' means a company formed and registered under the Companies Act, 1956 (1 of 1956) and approved as such by the Board under sub- regulation (2) of regulation 21;

(e) 'broker' means a stock broker as defined in Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) Rules, 1992 ;

(f) 'close-ended scheme' means any scheme of a mutual fund in

which the period of maturity of the scheme is specified;

(g) 'control' means,-

(i) in the case of a company any person or combination of persons who directly or indirectly own, control or hold shares carrying not less than 10% of the voting rights of such company; or

(ii) as between two companies, if the same person or combination of persons directly or indirectly, own control or hold shares carrying not less than 10% of the voting rights of each of the two companies; or

(ii) majority of the directors of any company who are in a position to exercise control over the asset management company;

(h) 'custodian' means a person who has been granted a certificate of registration to carry on the business of custodian of securities under the Securities and Exchange Board of India (Custodian of Securities) Regulations, 1996;

(i) 'depository' means a body corporate as defined in the Depositories Act, 1996 (22 of 1996);

(j) 'economic offence' means an offence to which the Economic Offences (Limitation of Prosecution) Act, 1974 (12 of 1974), applies for the time being;

(k) 'enquiry officer' means any person appointed as such by the Board under Chapter IX;

(l) 'form' means any of the forms specified as such in the First Schedule;

(m) 'fraud' for the purpose of these regulations has the same meaning as is assigned to it in section 17 of the Indian Contract Act, 1872 (9 of 1872):

**1**

"(ma) 'fund of funds scheme' means a mutual fund scheme that invests primarily in other schemes of the same mutual fund or other mutual funds."

**2**(mb) 'gold exchange traded fund scheme' shall mean a mutual fund scheme that invests primarily in gold or gold related instruments;

"(mc) 'gold related instrument' shall mean such instrument having gold as underlying, as may be specified by the Board from time to time;"

**3**(mm) 'group' means a group as defined in clause (ef) of Section 2 of the Monopolies and Restrictive Trade Practices Act, 1969 (54 of 1969)

(n) 'inspecting officer\*' means any person appointed as such by the Board under Chapter VIII ;

(o) 'money market instruments' includes commercial papers, commercial bills, treasury bills. Government securities having an unexpired maturity up to one year, call or notice money, certificate of deposit, usance bills, and any other like instruments as specified by the Reserve Bank of India from time to time:

(p) 'money market mutual fund' means a scheme of a mutual fund which has been set up with the objective of investing exclusively in money market instruments;

(q) 'mutual fund' means a fund established in the form of a trust to raise monies through the sale of units to the public or a section of the public under one or more schemes for investing in securities, including money market instruments "or gold or gold related instruments" ;

(r) 'offer document' means any document by which a mutual fund invites public for subscription of units of a scheme:

(s) 'open-ended scheme' means a scheme of a mutual fund which offers units for sale without specifying any duration for redemption;

(t) 'relative' means a person as defined in section 6 of the Companies Act, 1956 (1 of 1956);

(u) 'scheme' means a scheme of a mutual fund launched under Chapter V;

(v) 'schedule' means any of the schedules annexed to these regulations;

(w) 'securities laws' means the Securities and Exchange Board of India Act, 1992 (15 of 1992), the Securities Contracts (Regulation) Act, 1956 (42 of 1956) and the Depositories Act, 1996 (22 of 1996), including their amendments and such other laws as may be enacted from time to time;

(x) 'sponsor' means any person who, acting alone or in combination with another body corporate, establishes a mutual fund;

4 "(y) "Trustees" mean the Board of Trustees or the Trustee Company who hold the property of the Mutual Fund in trust for the benefit of the unit holders."

(z) 'unit' means the interest of the unit holders in a scheme, which consists of each unit representing one undivided share in the assets of a scheme; (z) (i) 'unit holder' means a person holding unit in a scheme of a mutual fund.

Inserted by The Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2003

In the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, in Regulation 2, after clause (ma), the following clauses shall be inserted, namely:- "(mb) 'gold exchange traded fund scheme' shall mean a mutual fund scheme that invests primarily in gold or gold related instruments; "(mc) 'gold related instrument' shall mean such instrument having gold as underlying, as may be specified by the Board from time to time;" by the Securities and Exchange Board of India Act, 1992

[1] Inserted vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L]

Substituted for "(y) 'trustee' means a person who holds the property of the mutual fund in trust for the benefit of the unitholders and includes a trustee company and the directors of the trustee company," by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 1999

## CHAPTER 2

### REGISTRATION OF MUTUAL FUND

#### **3. Application for registration :-**

An application for registration of a mutual fund shall be made to the Board in Form A by the sponsor.

#### **4. Application fee to accompany the application :-**

Every application for registration under regulation 3 shall be accompanied by non-refundable application fee as specified in the Second Schedule.

#### **5. Application to conform to the requirements :-**

An application, which is not complete in all respects shall be liable to be rejected : Provided that, before rejecting any such

application, the applicant shall be given an opportunity to complete such formalities within such time as may be specified by the Board.

**6. Furnishing Information :-**

The Board may require the sponsor to furnish such further information or clarification as may be required by it.

**7. Eligibility criteria :-**

For the purpose of grant of a certificate of registration, the applicant has to fulfil the following, namely:-

(a) the sponsor should have a sound track record and general reputation of fairness and integrity in all his business transactions.

Explanation : For the purposes of this clause 'sound track record' shall mean the sponsor should,-

(i) be carrying on business in financial services for a period of not less than five years; and

(ii) the net worth is positive in all the immediately preceding five years: and

(iii) the networth in the immediately preceding year is more than the capital contribution of the sponsor in the asset management company; and

(iv) the sponsor has profits after providing for depreciation, interest and tax in three out of the immediately preceding five years, including the fifth year;

**5**(aa) the applicant is a fit and proper person.

(b) in the case of an existing mutual fund, such fund is in the form of a trust and the trust deed has been approved by the Board:

(c) the sponsor has contributed or contributes at least 40% to the net worth of the asset management company: Provided that any person who holds 40% or more of the net worth of an asset management company shall be deemed to be a sponsor and will be required to fulfil the eligibility criteria specified in these regulations;

(d) the sponsor or any of its directors or the principal officer to be employed by the mutual fund should not have been guilty of fraud or has not been convicted of an offence involving moral turpitude or has not been found guilty of any economic offence;

(e) appointment of trustees to act as trustees for the mutual fund

in accordance with the provisions of the regulations;

(f) appointment of asset management company to manage the mutual fund and operate the scheme of such funds in accordance with the provisions of these regulations;

(g) appointment of a custodian in order to keep custody of the securities <sup>6</sup> "or gold and gold related instruments" and carry out the custodian activities as may be authorised by the trustees.

[2]Inserted vide " SECURITIES AND EXCHANGBOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L]

In Regulation 7, in clause (g), after the words "keep custody of the securities", the words "or gold and gold related instruments" shall be inserted by the Securities and Exchange Board of India Act, 1992

#### **8. Consideration of application :-**

The Board, may on receipt of all information decide the application.

#### **9. Grant of Certificate of Registration :-**

The Board may register the mutual fund and grant a certificate in Form B on the applicant paying the registration fee as specified in Second Schedule.

#### **10. Terms and conditions of registration :-**

The registration granted to a mutual fund under regulation 9, shall be subject to the following terms and conditions :-

(a) the trustees, the sponsor, the asset management company and the custodian shall comply with the provisions of these regulations;

(b) the mutual fund shall forthwith inform the Board, if any information or particulars previously submitted to the Board was misleading or false in any material respect;

(c) the mutual fund shall forthwith inform the Board, of any material change in the information or particulars previously furnished, which have a bearing on the registration granted by it;

(d) payment of fees as specified in the regulations and the Second Schedule.

#### **11. Rejection of application :-**

Where the sponsor does not satisfy the eligibility criteria mentioned in regulation 7, the Board may reject the application and inform the applicant of the same.

**12. Payment of service fee :-**

A mutual fund shall pay before the 15th April each year a service fee as specified in the Second Schedule for every financial year from the year following the year of registration ; Provided that the Board may, on being satisfied with the reasons for the delay permit the mutual fund to pay the service fee at any time before the expiry of two months from the commencement of the financial year to which such fee relates.

**13. Failure to pay service fee :-**

The Board may not permit a mutual fund who has not paid service fee to launch any scheme.

CHAPTER 3

CONSTITUTION AND MANAGEMENT OF MUTUAL FUND AND OPERATION OF TRUSTEES, ETC

**14. Trust Deed to be registered under the Registration Act**

**:-**

A mutual fund shall be constituted in the form of a trust and the instrument of trust shall be in the form of a deed, duly registered under the provisions of the Indian Registration Act, 1908 (16 of 1908), executed by the sponsor in favour of the trustees named in such an instrument.

**15. Contents of trust deed :-**

(1) The trust deed shall contain such clauses as are mentioned in the Third Schedule and such other clauses which are necessary for safeguarding the interests of the unit holders.

(2) No trust deed shall contain a clause which has the effect of-

(i) limiting or extinguishing the obligations and liabilities of the trust in relation to any mutual fund or the unit holders ; or

(ii) indemnifying the trustees or the asset management company for loss or damage caused to the unit holders by their acts of negligence or acts of commission or omission.

**16. Disqualification from being appointed as trustees :-**

(1) A mutual fund shall appoint trustees in accordance with these

regulations.

(2) No person shall be eligible to be appointed as a trustee unless-

(a) he is a person of ability, integrity and standing; and

(b) has not been found guilty of moral turpitude; and

(c) has not been convicted of any economic offence or violation of any securities laws; and

(d) has furnished particulars as specified in Form C.

"(3) No asset management company and no director (including independent director), officer or employee of an asset management company shall be eligible to be appointed as a trustee of any mutual fund."

(4) No person who is appointed as a trustee of a mutual fund shall be eligible to be appointed as a trustee of any other mutual fund:

Provided that any mutual fund which is not in compliance with sub-regulations (3) or (4) as at the commencement of the Securities and Exchange Board of India (Mutual Funds) (Fifth Amendment) Regulations, 2006 shall ensure compliance therewith within three months from such commencement.

<sup>7</sup> (5) Two thirds of the trustees shall be independent persons and shall not be associated with the sponsors or be associated with them in any manner whatsoever.

(6) In case a company is appointed as a trustee then its directors can act as trustees of any other trust provided that the object of the trust is not in conflict with the object of the mutual fund.

[3]Substituted for " (5) At least 50% of the trustees shall be independent persons and no such trustees shall be an associate or a subsidiary or associated in any manner with the sponsor. ", vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L]

### **17. Approval of the Board for appointment of trustee :-**

(1) No trustee shall initially or any time thereafter be appointed without prior approval of the Board: [**\*\*8** \*]

(2) The existing trustees of any mutual fund may form a trustee company to act as a trustee with the prior approval of the Board.

[4]Omitted for "Provided further if any trustee resigns or retires, a new trustee shall be appointed within a period of three months with the prior approval of the Board.", vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L]

### **18. Rights and obligations of the trustees :-**

(1) The trustees and the asset management company shall with the prior approval of the Board enter into an investment management agreement.

(2) The investment management agreement shall contain such clauses as are mentioned in the Fourth Schedule and such other clauses as are necessary for the purpose of making investments.

(3) The trustees shall have a right to obtain from the asset management company such information as is considered necessary by the trustees.

(4) The trustees shall ensure before the launch of any scheme that the asset management company has,-

(a) systems in place for its back office, dealing room and accounting

(b) appointed all key personnel including fund manager(s) for the scheme(s) and submitted their bio-data which shall contain the educational qualifications, past experience in the securities market with the trustees, within 15 days of their appointment;

(c) appointed auditors to audit its accounts;

**8/FNR>(d) appointed a compliance officer who shall be responsible for monitoring the compliance of the Act, rules and regulations, notifications, guidelines instructions etc. issued by the Board or the Central Government and for redressal of investors' grievances.**

(e) appointed registrars and laid down parameters for their supervision;

(f) prepared a compliance manual and designed internal control

mechanisms including internal audit systems;

(g) specified norms for empanelment of brokers and marketing agents.

**10**(4a) The compliance officer appointed under clause (d) of sub-regulation (4) shall immediately and independently report to the Board any non-compliance observed by him."

(5) The trustees shall ensure that an asset management company has been diligent in empanelling the brokers, in monitoring securities transactions with brokers and avoiding undue concentration of business with any broker.

(6) The trustees shall ensure that the asset management company has not given any undue or unfair advantage to any associates or dealt with any of the associates of the asset management company in any manner detrimental to interest of the unit holders.

(7) The trustees shall ensure that the transactions entered into by the asset management company are in accordance with these regulations and the scheme.

(8) The trustees shall ensure that the asset management company has been managing the mutual fund schemes independently of other activities and have taken adequate steps to ensure that the interest of investors of one scheme are not being compromised with those of any other scheme or of other activities of the asset management company.

(9) The trustees shall ensure that all the activities of the asset management company are in accordance with the provisions of these regulations.

(10) Where the trustees have reason to believe that the conduct of business of the mutual fund is not in accordance with these regulations and the scheme they shall forthwith take such remedial steps as are necessary by them and shall immediately inform the Board of the violation and the action taken by them.

**8**"(11) Each trustee shall file the details of his transactions of dealing in securities with the Mutual Fund on a quarterly basis."

(12) The trustees shall be accountable for, and be the custodian of, the funds and property of the respective schemes and shall hold the same in trust for the benefit of the unit holders in accordance

with these regulations and the provisions of trust deed.

(13) The trustees shall take steps to ensure that the transactions of the mutual fund are in accordance with the provisions of the trust deed.

(14) The trustees shall be responsible for the calculation of any income due to be paid to the mutual fund and also of any income received in the mutual fund for the holders of the units of any scheme in accordance with these regulations and the trust deed.

(15) The trustees shall obtain the consent of the unit holders-

(a) whenever required to do so by the Board in the interest of the unit holders; or

(b) whenever required to do so on the requisition made by three-fourths of the unit holders of any scheme; or

(c) when the majority of the trustees decide to wind up or prematurely redeem the units; or

(d) **12**

Explanation: For the purposes of this clause "fundamental attributes" means the investment objective and terms of a scheme.

**13"**(15A) The trustees shall ensure that no change in the fundamental attributes of any scheme or the trust or fees and expenses payable or any other change which would modify the scheme and affects the interest of unit holders, shall be carried out unless,-

(i) a written communication about the proposed change is sent to each unit holder and advertisement is given in one English .daily newspaper having nationwide circulation as well as in a newspaper published in the language of the region where the Head Office of the mutual fund is situated; and

(ii) the unit holders are given an option to exit at the prevailing Net-Asset Value without any" exit load."

(16) The trustees shall call for the details of transactions in securities by the key personnel of the asset management company in his own name or on behalf of the asset management company and shall report to the Board, as and when required.

(17) The trustees shall quarterly review all transactions carried out

between the mutual funds, asset management company and its associates.

(18) The trustees shall <sup>14</sup>["quarterly"] review the networth of the asset management company and in case of any shortfall, ensure that the asset management company make up for the shortfall as per clause (f) of sub-regulation (1) of regulation 21.

( 19) The trustees shall periodically review all service contracts such as custody arrangements, transfer agency of the securities and satisfy itself, that such contracts are executed in the interest of the unit holders.

(20) The trustees shall ensure that there is no conflict of interest between the manner of deployment of its net worth by the asset management company and the interest of the unit holders.

(21 ) The trustees shall periodically review the investor complaints received and the redressal of the same by the asset management company.

(22) The trustees shall abide by the Code of Conduct as specified in the Fifth Schedule.

(23) The trustees shall furnish to the Board on a half-yearly basis-

(a) a report on the activities of the mutual fund;

(b) a certificate stating that the trustees have satisfied themselves that there have been no instances of self-dealing or front running by any of the trustees, directors and key personnel of the asset management company;

(c) a certificate to the effect that the asset management company has been managing the schemes independently of any other activities and in case any activities of the nature referred to in sub-regulation (2) of regulation 24 have been undertaken by the asset management company and has taken adequate steps to ensure that the interests of the unit holders are protected.

<sup>15</sup>(24) The independent trustees referred to in sub-regulation (5) of Regulation 16 shall give their comments on the report received from the asset management company regarding the investments by the mutual fund in the securities of group companies of the sponsor

<sup>16</sup>"(25) Trustees shall exercise due diligence as under: A. General

Due Diligence: (i) The Trustees shall be discerning in the appointment of the directors on the Board of the asset management company. (ii) Trustees shall review the desirability of continuance of the asset management company if substantial irregularities are observed in any of the schemes and shall not allow the asset management company to float new schemes. (iii) The trustee shall ensure that the trust property is properly protected, held and administered by proper persons and by a proper number of such persons. (iv) The trustee shall ensure that all service providers are holding appropriate registrations from the Board of concerned regulatory authority. (v) The Trustees shall arrange for test checks of service contracts. (vi) Trustees shall immediately report to Board of any special developments in the mutual fund. B. Specific Due Diligence: The Trustees shall: (i) obtain internal audit reports at regular intervals from independent auditors appointed by the Trustees. (ii) obtain compliance certificates at regular intervals from the asset management company. (iii) hold meeting of trustees more frequently. (iv) consider the reports of the independent auditor and compliance reports of asset management company at the meetings of trustees for appropriate action. (v) maintain records of the decisions of the Trustees at their meetings and of the minutes of the meetings. (vi) prescribed and adhere to a code of ethics by the Trustees, asset management company and its personnel. (vii) communicate in writing to the asset management company of the deficiencies and checking on the rectification of deficiencies."

**17**"(26) Notwithstanding anything contained in sub-regulations (1) to (25), the trustees shall not be held liable for acts done in good faith if they have exercised adequate due diligence honestly."

**18** "(27) The independent directors of the trustees or asset management company shall pay specific attention to the following, as may be applicable, namely:- (i) the Investment Management Agreement and the compensation paid under the agreement. (ii) service contracts with affiliates-whether the asset management company has charged higher fees than outside contractors for the same services. (iii) selection of the asset management company's independent directors (iv) securities transactions involving affiliates to the extent such transactions are permitted. (v) selecting and nominating individuals to fill independent directors vacancies. (vi) code of ethics must be designed to prevent fraudulent, deceptive or manipulative practices by insiders in connection with personal

securities transactions. (vii) the reasonableness of fees paid to sponsors, asset management company and any other for services provided. (viii) principal underwriting contracts and their renewals. (ix) any service contract with the associates of the asset management company."

Substituted by "The Securities and Exchange Board of India (Investment Advice by Intermediaries)(Amendment)Regulations, 2001

Inserted by "The Securities and Exchange Board of India (Investment Advice by Intermediaries)(Amendment)Regulations, 2001

Substituted for "(11) Each trustee shall file the details of his holdings in securities on a half- yearly basis with the trust." by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 1999

Omitted for "when any change in the fundamental attributes of any scheme or the trust or fees and expenses payable or any other change which would modify the scheme or affect the interest of the unit holders is proposed to be carried out unless the consent of not less than three-fourths of the unit holders is obtained : Provided that no such change shall be carried out unless three-fourths of the unit holders have given their consent and the unit holders who do not give their consent are allowed to redeem their holdings in the scheme." by the Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2000

Inserted by the Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2000

[5]Substituted for "continuously", vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L]

[6]Inserted vide " SECURITIES AND EXCHANGBOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L]

Inserted by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 1999

#### CHAPTER 4

CONSTITUTION ANDMANAGEMENT OF ASSET MANAGEMENT COMPANY AND CUSTODIAN

### **19. Application by an asset management company :-**

(1) The application for the approval of the asset management company shall be made in Form D.

(2) The provisions of regulations 5,6 and 8 shall, so far as may be, apply to the application made under sub-regulation (1) as they apply to the application for registration of a mutual fund.

## **20. Appointment of an asset management company :-**

(1) The sponsor or, if so authorised by the trust deed, the trustee, shall appoint an asset management company, which has been approved by the Board under sub-regulation (2) of regulation 21.

(2) The appointment of an asset management company can be terminated by majority of the trustees or by seventy-five per cent of the unit holders of the scheme.

(3) Any change in the appointment of the asset management company shall be subject to prior approval of the Board and the unit holders.

## **21. Eligibility criteria for appointment of asset management company :-**

(1) For grant of approval of the asset management company the applicant has to fulfil the following;-

(a) in case the asset management company is an existing asset management company it has a sound track record, general reputation and fairness in transactions. Explanation .-For the purpose of this clause sound track record shall mean the networth and the profitability of the asset management company;

<sup>19</sup>(aa) the asset management company is a fit and proper person.

(b) the directors of the asset management company are persons having adequate professional experience in finance and financial services related field and not found guilty of moral turpitude or convicted of any economic offence or violation of any securities laws;

(c) the key personnel of the asset management company <sup>20</sup>["have not been found guilty of moral turpitude or convicted of economic offence or violation of securities laws or"]<sup>21</sup>["or worked"]for any asset management company or mutual fund or any intermediary<sup>22</sup>["during the period when its"]registration has been

suspended or cancelled at any time by the Board;

(d) the board of directors of such asset management company has at least fifty per cent directors, who are not associate of, or associated in any manner with, the sponsor or any of its subsidiaries or the trustees;

(e) the Chairman of the asset management company is not a trustee of any mutual fund;

(f) the asset management company has a networth of not less than rupees ten crores : Provided that an asset management company already granted approval under the provisions of Securities and Exchange Board of India (Mutual Funds) Regulations, 1993 shall within a period of twelve months from the date of notification of these regulations increase its networth to rupees ten crores.

**23**["Provided that the period specified in the first proviso may be extended in appropriate cases by the Board up to three years for reasons to be recorded in writing: Provided further that no new schemes shall be allowed to be launched or managed by such asset management company till the net worth has been raised to Rupees ten crores."]

**24** "Explanation-For the purposes of this clause, "net worth" means the aggregate of the paid up capital and free reserves of the asset management company after deducting therefrom miscellaneous expenditure to the extent not written off or adjusted or deferred revenue expenditure, intangible assets and accumulated losses."

(2) The Board may, after considering an application with reference to the matters specified in sub-regulation (1), grant approval to the asset management company.

[7]Inserted vide " SECURITIES AND EXCHANGBOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L]

[8]Inserted vide " SECURITIES AND EXCHANGBOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L]

[9]Substituted for "has not been working ", vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS)

REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L]

[10]Substituted for " whose ", vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L]

Substituted by "The Securities and Exchange Board of India (Investment Advice by Intermediaries)(Amendment)Regulations, 2001

Substituted for the Explanation "Explanation . For the purposes of this clause, "networth' means the paid up capital and free reserves of the company." by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 1999

## **22. Terms and conditions to be complied with :-**

The approval granted under sub-regulation (2) of regulation 21 shall be subject to the following conditions, namely :-

(a) any director of the asset management company shall not hold the office of the director in another asset management company unless such person is an independent director referred to in clause (d) of sub-regulation (1) of regulation 21 and approval of the Board of asset management company of which such person is a director, has been obtained;

(b) the asset management company shall forthwith inform the Board of any material change in the information or particulars previously furnished, which have a bearing on the approval granted by it;

(c) no appointment of a director of an asset management company shall be made without prior approval of the trustees;

(d) the asset management company undertakes to comply with these regulations;

**25** (e) no change in the controlling interest of the asset management company shall be made unless,- (1) prior approval of the trustees and the Board is obtained; (ii) a written communication about the proposed change is sent to each unit holder and an advertisement is given in one english daily newspaper having nationwide circulation and in a newspaper

published in the language of the region where the head Office of the mutual fund is situated; and (iii) the unit holders are given an option to exit on the prevailing Net Asset Value without any exit load."

(f) the asset management company shall furnish such information and documents to the trustees as and when required by the trustees.

Substituted for "(e)any change in controlling interest of the asset management company shall be only with prior approval of trustees, the Board and the unit holders;" by the Securities and Exchange Board of India (Mutual Funds) (Second Amendment)Regulations, 2000

### **23. Procedure where approval is not granted :-**

Where an application made under regulation 19 for grant of approval does not satisfy the eligibility criteria laid down in regulation 21, the Board may reject the application.

### **24. Restrictions on business activities of the asset management company :-**

The asset management company shall-

(1) not act as a trustee of any mutual fund;

(2) not undertake any other business activities except activities in the nature of <sup>26</sup>"portfolio management services" management and advisory services to offshore funds, pension funds, provident funds, venture capital funds, management of insurance funds, financial consultancy and exchange of research on commercial basis if any of such activities are not in conflict with the activities of the mutual fund: Provided that the asset management company may itself or through its subsidiaries undertake such activities if it satisfies the Board that the key personnel of the asset management company, the systems, back office, bank and securities accounts are segregated activity-wise and there exist systems to prohibit access to inside information of various activities: Provided further that asset management company shall meet capital adequacy requirements, if any, separately for each such activity and obtain separate approval, if necessary under the relevant regulations.

(3) The asset management company shall not invest in any of its schemes unless full disclosure of its intention to invest has been made in the offer documents <sup>27</sup> ["in case of schemes launched after the notification of these regulations"]: Provided that an asset

management company shall not be entitled to charge any fees on its investment in that scheme.

Inserted by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 1999

Inserted by "The Securities and Exchange Board of India (Investment Advice by Intermediaries)(Amendment)Regulations, 2001

**25. Asset management company and Its obligations :-**

(1) The asset management company shall take all reasonable steps and exercise due diligence to ensure that the investment of funds pertaining to any scheme is not contrary to the provisions of these regulations and the trust deed.

(2) The asset management company shall exercise due diligence and care in all its investment decisions as would be exercised by other persons engaged in the same business.

(3) The asset management company shall be responsible for the acts of commission or omission by its employees or the persons whose services have been procured by the asset management company.

(4) The asset management company shall submit to the trustees quarterly reports of each year on its activities and the compliance with these regulations.

(5) The trustees at the request of the asset management company may terminate the assignment of the asset management company at any time : Provided that such termination shall become effective only after the trustees have accepted the termination of assignment and communicated their decision in writing to the asset management company.

(6) Notwithstanding anything contained in any contract or agreement or termination, the asset management company or its directors or other officers shall not be absolved of liability to the mutual fund for their acts of commission or omission, while holding such position or office.

**1**

"(6-A). The Chief Executive Officer (whatever his designation may be) of the asset management company shall ensure that the mutual fund complies with all the provisions of these regulations

and the guidelines or circulars issued in relation thereto from time to time and that the investments made by the fund managers are in the interest of the unitholders and shall also be responsible for the overall risk management function of the mutual fund. Explanation. For the purpose of this sub-regulation, the words 'these regulations' shall mean and include the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 as amended from time to time.

**29**

(6-B) The fund managers (whatever the designation may be) shall ensure that the funds of the schemes are invested to achieve the objectives of the scheme and in the interest of the unitholders."

**30(7)**

(a) An asset management company shall not through any broker associated with the sponsor, purchase or sell securities, which is average of 5% or more of the aggregate purchases and sale of securities made by the mutual fund in all its schemes : Provided that for the purpose of this sub-regulation, aggregate purchase and sale of securities shall exclude sale and distribution of units issued by the mutual fund: Provided further that the aforesaid limit of 5% shall apply for a block of any three months.

(b) An asset management company shall not purchase or sell securities through any broker [other than a broker referred to in clause (a) of sub-regulation (7)] which is average of 5% or more of the aggregate purchases and sale of securities made by the mutual fund in all its schemes, unless the asset management company has recorded in writing the justification for exceeding the limit of 5% and reports of all such investments are sent to the trustees on a quarterly basis: Provided that the aforesaid limit shall apply for a block of three months.

(8) An asset management company shall not utilise the services of the sponsor or any of its associates, employees or their relatives, for the purpose of any securities transaction and distribution and sale of securities : Provided that an asset management company may utilise such services if disclosure to that effect is made to the unit holders and the brokerage or commission paid is also disclosed in the half-yearly annual accounts of the mutual fund. **31**"Provided further that the mutual funds shall disclose at the time of declaring half-yearly and yearly results; (i) any underwriting obligations

undertaken by the schemes of the mutual funds with respect to issue of securities associate companies, (ii) development, if any, (iii) subscription by the schemes in the issues lead managed by associate companies (iv) subscription to any issue of equity or debt on private placement basis where the sponsor or its associate companies have acted as arranger or manager."

(9) The asset management company shall file with the trustees the details of transactions in securities by the key personnel of the asset management company in their own name or on behalf of the asset management company and shall also report to the Board, as and when required by the Board.

(10) In case the asset management company enters into any securities transactions with any of its associates a report to that effect shall <sup>32</sup>[\*\*\*] <sup>33</sup>["at its next meeting"].

(11) In case any company has invested more than 5 per cent of the net asset value of a scheme, the investment made by that scheme or by any other scheme of the same mutual fund in that company or its subsidiaries shall be brought to the notice of the trustees by the asset management company and be disclosed in the half-yearly and annual accounts of the respective schemes with justification for such investment. <sup>34</sup>["provided the latter investment has been made within one year of the date of the former investment calculated on either side"]

(12) The asset management company shall file with the trustees and the Board-

(a) detailed bio-data of all its directors along with their interest in other companies within fifteen days of their appointment; and

(b) any change in the interests of directors every six months.

<sup>35</sup>(c) a quarterly report to the trustees giving details and adequate justification about the purchase and sale of the securities of the group companies of the sponsor or the asset management company as the case may be, by the mutual fund during the said quarter.

**36**

(13) Each director of the Asset Management Company shall file the details of his transactions of dealing in securities with the trustees on a quarterly basis in accordance with guidelines issued by the Board.

(14) The asset management company shall not appoint any person as key personnel who has been found guilty of any economic offence or involved in violation of securities laws.

(15) The asset management company shall appoint registrars and share transfer agents who are registered with the Board : Provided if the work relating to the transfer of units is processed in-house, the charges at competitive market rates may be debited to the scheme and for rates higher than the competitive market rates, prior approval of the trustees shall be obtained and reasons for charging higher rates shall be disclosed in the annual accounts.

(16) The asset management company shall abide by the Code of Conduct as specified in the Fifth Schedule.

Inserted by The Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2003

[13]Substituted for " (7) No asset management company shall deal in securities through any broker associated with the sponsor or a firm which is an associate of a sponsor beyond 5% of the daily gross business of the mutual fund. ", vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti.No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L]

Inserted by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 1999

[14]Omitted for "immediately", vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L]

[15]Inserted vide " SECURITIES AND EXCHANGBOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L]

[16]Inserted vide " SECURITIES AND EXCHANGBOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L]

[17]Inserted vide " SECURITIES AND EXCHANGBOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998

Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L]

In Regulation 25, Sub-regulation 13, shall be substituted by Securities and Exchange Board of India (Mutual Funds)(Second Amendment) Regulations, 2001. Noti. No. F.No.SEBI/LEI/32858/2001, dated 23/7/2001, Gas. of India, Exty., Pt.II-Sec. 3(ii), No. 501, dt. 23/7/2001, page.5. (13) A statement of holdings in securities of the directors of the asset management company shall be filed with the trustees with the dates of acquisition of such securities at the end of each financial year.

## **26. Appointment of Custodian :-**

(1) The mutual fund shall appoint a Custodian to carry out the custodial services for the schemes of the fund and sent intimation of the same to the Board within fifteen days of the appointment of the Custodian. <sup>37</sup> "Provided that in case of a gold exchange traded fund scheme, the assets of the scheme being gold or gold related instruments may be kept in custody of a bank which is registered as a custodian with the Board."

(2) No Custodian in which the sponsor or its associates hold 50 per cent or more of the voting rights of the share capital of the custodian or where 50 per cent or more of the directors of the custodian represent the interest of the sponsor or its associates shall act as custodian for a mutual fund constituted by the same sponsor or any of its associates or subsidiary company.

In the Securities and Exchange Board of India(Mutual Funds) Regulations, 1996, in Regulation 26, after sub-regulation (1), the following proviso shall be inserted, namely: "Provided that in case of a gold exchange traded fund scheme, the assets of the scheme being gold or gold related instruments may be kept in custody of a bank which is registered as a custodian with the Board." by the Securities and Exchange Board of India Act, 1992

## **27. Agreement with Custodian :-**

The mutual fund shall enter into a custodian agreement with the custodian, which shall contain the clauses which are necessary for the efficient and orderly conduct of the affairs of the custodian: Provided that the agreement, the service contract, terms and appointment of the custodian shall be entered into with the prior approval of the trustees.

## **28. Procedure for launching of schemes :-**

(1) No scheme shall be launched by the asset management company unless such scheme is approved by the trustees and a copy of the offer document has been filed with the Board.

(2) Every mutual fund shall along with the offer document of each scheme pay filing fees as specified in the Second Schedule.

## **29. Disclosures in the offer document :-**

(1) The offer document shall contain disclosures which are adequate in order to enable the investors to make informed investment decision. <sup>38</sup>["including the disclosure on maximum investments proposed to be made by the scheme in the listed securities of the group companies of the sponsor."]

(2) The Board may in the interest of investors require the asset management company to carry out such modifications in the offer document as it deems fit.

(3) In case no modifications are suggested by the Board in the offer document within 21<sup>39</sup>["working"]days from the date of filing, the asset management company may issue the offer document.

<sup>40</sup> (4) No one shall issue any form of application for units of a mutual fund unless the form is accompanied by the memorandum containing such information as may be specified by the Board.

[18]Inserted vide " SECURITIES AND EXCHANGBOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L]

[19]Inserted vide " SECURITIES AND EXCHANGBOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L]

[20]Inserted vide " SECURITIES AND EXCHANGBOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L]

## **29A. Nomination :-**

**41**

(1) The asset management company shall provide an option to the unit holder to nominate, in the manner specified in Fourth Schedule, a person in whom the units held by him shall vest in the event of his death.

(2) Where the units are held by more than one person jointly, the joint unit holders may together nominate a person in whom all the rights in the units shall vest in the event of death of all the joint unit holders.

Section 29A shall be inserted by Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2002, Gaz. of India, Exty., Pt. II-Sec. 3(ii). No. 531, dt. 11/6/2002. p. 5.

## **30. Advertisement material :-**

(1) Advertisements in respect of every scheme shall be in conformity with the Advertisement Code as specified in the Sixth Schedule and shall be submitted to the Board within 7 days from the date of issue.

(2) The advertisement for each scheme shall disclose **42** ["investment objective of each scheme"].

[21]Substituted for "in addition the investment objectives, the method and periodicity of valuation of investments, the method and periodicity of sales and repurchases", vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L]

## **31. Misleading statements :-**

The offer document and advertisement materials shall not be misleading or contain any statement or opinion which are incorrect or false.

## **32. Listing of close ended schemes :-**

Every close ended scheme shall be listed in a recognized stock exchange within six months from the closure of the subscription : Provided that listing of close ended scheme shall not be mandatory-

(a) if the said scheme provides for periodic repurchase facility to all

the unit holders with restriction, if any, on the extent of such repurchase; or

(b) if the said scheme provides for monthly income or caters to special classes of persons like senior citizens, women, children, widows or physically handicapped or any special class of persons providing for repurchase of units at regular intervals; or

(c) if the details of such repurchase facility are clearly disclosed in the offer document; or

(d) if the said scheme opens for repurchase within a period of six months from the closure of subscription.

### **33. Repurchase of close ended schemes :-**

(1) The asset management company may at its option repurchase or reissue the repurchased units of a close ended scheme.

(2) The units of close ended schemes referred to in the proviso to regulation 32 may be open for sale or redemption at fixed pre-determined intervals <sup>43</sup>[\*\*\*]if the maximum and minimum amount of sale or redemption of the units and the periodicity of such sale or redemption have been disclosed in the offer document.

(3) The units of close ended scheme may be converted into open-ended scheme,-

(a) if the offer document of such scheme discloses the option and the period of such conversion; or

<sup>44</sup>(b) the unitholders are provided with an option to redeem their units in full "; and" <sup>45</sup>.

<sup>46</sup>"(c) the initial issue expenses of the scheme have been amortised fully in accordance with the Tenth Schedule."

(4)A close ended scheme shall be fully redeemed at the end of the maturity period <sup>47</sup>[\*\*\*]: <sup>48</sup>

[22]Omitted for "without listing ", vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98]  
[L]

[23]Substituted for " (b) the majority of the unit holders give a

consent to that effect. ", vide " SECURITIES ANDEXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L]

In regulation 33, in sub-regulation (3), in clause (b), the figure and word "; and" shall be inserted at the end; by the Securities and Exchange Board of India Act, 1992 (15 of 1992).

In regulation 33, in sub-regulation (3), after clause (b) , the following clause shall be inserted ,namely ;- "(c) the initial issue expenses of the scheme have been amortised fully in accordance with the Tenth Schedule." by the Securities and Exchange Board of India Act, 1992 (15 of 1992).

[24]Omitted for "unless a majority of the unit holders otherwise decide for its rollover by passing a resolution ", vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L]

[25]Substituted for "Provided that the unit holders not opting for the rollover shall be allowed to redeem their holdings in the scheme.", vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L]

#### **34. Offering period :-**

No scheme of a mutual fund other than the offering <sup>49</sup> ["initial"]period of any equity linked savings' schemes shall be open for subscription for more than 45 days.

[26]Inserted vide " SECURITIES AND EXCHANGBOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L]

#### **35. Allotment of units and refunds of moneys :-**

(1) The asset management company shall specify in the offer document-

(a) the minimum subscription amount it seeks to raise under the scheme; and

(b) in case of over subscription the extent of subscription it may retain : Provided that where the asset management company retains the over subscription referred to in clause (b), all the applicants applying up to five thousand units shall be given full allotment subject to the over subscription mentioned in clause (b).

(2) The mutual fund and asset management company shall be liable to refund the application money to the applicants,-

(i) if the mutual fund fails to receive the minimum subscription amount referred to in clause (a) of sub-regulation (1);

(ii) if the moneys ricants for units are in excess of subscription as referred to in clause (b) of sub-regulation (1).

(3) Any amount refundable der sub-regulation (2) shall be refunded within a period of six weeks from the date of closure of subscription list, by Registered post with acknowledgement due and by cheque or demand draft marked "A/c payee" to the applicants.

(4) In the event of failure to refund the amounts within the period specified in sub-regulation (3), the asset management company shall be liable to pay interest to the applicants at a rate of fifteen per cent per annum from the expiry of six weeks from the date of closure of the subscription list.

### **36. Unit certificates or Statement of Accounts :-**

The asset management company shall issue to the applicant whose application has been accepted, unit certificates or a statement of accounts specifying the number of units allotted to the applicant as soon as possible but not later than six weeks from the date of closure of the <sup>50</sup> ["initial subscription list and or from the date of receipt of the request from the unit holders in any open ended scheme"]:

Provided that if an applicant so desires, the asset management company shall issue the unit certificates to the applicant within six weeks of the receipt of request for the certificate.

[27]Substituted for "subscription list", vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98]  
[L]

### **37. Transfer of units :-**

(1) A unit certificate unless otherwise restricted or prohibited under the scheme, shall be freely transferable by act of parties or by operation of law.

(2) The asset management company shall, on production of instrument of transfer together with relevant unit certificates, register the transfer and return the unit certificate to the transferee within thirty days from the date of such production : Provided that if the units are with the depository such units will be transferable in accordance with the provisions of the Securities and Exchange Board of India (Depositories and Participants) Regulations, 1996.

### **38. Guaranteed returns :-**

No guaranteed return shall be provided in a scheme,-

(a) unless such returns are fully guaranteed by the sponsor or the asset management company;

(b) unless a statement indicating the name of the person who will guarantee the return, is made in the offer document;

(c) the manner in which the guarantee is to be met has been stated in the offer document.

### **39. Winding up :-**

(1) A close-ended scheme shall be wound up on the expiry of duration fixed in the scheme on the redemption of the units unless it is rolled over for a further period under sub-regulation (4) of regulation 33.

(2) A scheme of a mutual fund may be wound up, after repaying the amount due to the unit holders,-

(a) on the happening of any event which, in the opinion of the trustees, requires the scheme to be wound up; or

(b) if seventy five per cent of the unit holders of a scheme pass a resolution that the scheme be wound up; or

(c) if the Board so directs in the interest of the unit holders.

(3) Where a scheme is to be wound up under sub-<sup>51</sup> [\*\*\*]sub-regulation (2), the trustees shall give notice disclosing the circumstances leading to the winding up of the scheme:-

(a) to the Board; and

(b) in two daily newspapers having circulation all over India, a vernacular newspaper circulating at the place where the mutual fund is formed.

[28]Omitted for "regulation (1) or ", vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L]

**40. Effect of winding up :-**

On and from the date of the publication of notice under clause (b) of sub-regulation (3) of regulation 39, the trustee or the asset management company as the case may be, shall-

(a) cease to carry on any business activities in respect of the scheme so wound up;

(b) cease to create or cancel units in the scheme;

(c) cease to issue or redeem units in the scheme.

**41. Procedure and manner of winding up :-**

(1) The trustee shall call a meeting of the unit holders to approve by simple majority of the unit holders present and voting at the meeting resolution for authorising the trustees or any other person to take steps for winding up of the scheme : Provided that a meeting of the unit holders shall not be necessary if the scheme is wound up at the end of maturity period of the scheme.

(2)

(a) The trustee or the person authorised under sub-regulation ( I ) shall dispose of the assets of the scheme concerned in the best interest of the unit holders of that scheme.

(b) The proceeds of sale realised under clause (a), shall be first utilised towards discharge of such liabilities as are due and payable under the scheme and after making appropriate provision for meeting the expenses connected with such winding up, the balance shall be paid to the unit holders in proportion to their respective interest in the assets of the scheme as on the date when the decision for winding up was taken.

(3) On the completion of the winding up, the trustee shall forward to the Board and the unit holders a report on the winding up containing particulars such as circumstances leading to the winding up, the steps taken for disposal of assets of the fund before winding up, expenses of the fund for winding up, net assets available for distribution to the unit holders and a certificate from the auditors of the fund.

(4) Notwithstanding anything contained in this regulation, the provisions of these regulations in respect of disclosures of half-yearly reports and annual reports shall continue to be applicable <sup>52</sup> ["until winding up is completed or the scheme ceases to exist"] .

[29]Inserted vide " SECURITIES AND EXCHANGBOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L]

#### **42. Winding up of the scheme :-**

After the receipt of the report under sub-regulation (3) of regulation 41, if the Board is satisfied that all measures for winding up of the scheme have been complied with, the scheme shall cease to exist.

#### **CHAPTER 6**

#### **INVESTMENT OBJECTIVES AND VALUATION POLICIES**

#### **43. Investment objective :-**

(1) Subject to other provisions of these regulations, a mutual fund may invest moneys collected under any of its schemes only in (a) securities; (b) money market instruments; (c) privately placed debentures; (d) securitised debt instruments, which are either asset backed or mortgage backed securities; or (e) gold or gold related instruments

(2) Any investment made under sub-regulation (1) shall be in accordance with the investment objective of the relevant mutual fund scheme.

(3) Moneys Collected under any money market scheme of a mutual fund shall be invested only in money market instruments.

(4) Moneys collected under any gold exchange traded fund scheme shall be invested only in gold or gold related instruments, in

accordance with sub-regulation (5) of Regulation 44."

**44. Investment, borrowing, restriction, etc :-**

(1) Any investment to be made under regulation 43 shall be invested subject to the investment restriction specified in the Seventh Schedule.

**54**"Provided that nothing in the Seventh Schedule shall apply to a gold exchange traded fund scheme."

**55**(1-A) The mutual fund having an aggregate of securities which are worth Rs 10 crores or more, as on the latest balance sheet date, shall subject to such instructions as may be issued from time to time by the Board settle their transactions entered on or after January 15, 1998 only through dematerialised securities.

(2) The mutual fund shall not borrow except to meet temporary liquidity needs of the mutual fund for the purpose of repurchase, redemption of units or payment of interest or dividend to the unit holders:

Provided that the mutual fund shall not borrow more than 20 per cent of the net asset of the scheme and the duration of such a borrowing shall not exceed a period of six months.

**56**(3) The mutual fund shall not advance any loans for any purpose.

(4) The mutual fund may lend securities in accordance with the Stock Lending Scheme of the Board.

"

**57** (5)A gold exchange traded fund scheme shall be subject to the following investment restrictions:

(a) the initial issue expenses in respect of any such scheme shall not exceed six percent of the funds raised under that scheme;

(b) the funds of any such scheme shall be invested only in gold or gold related instruments in accordance with its investment objective, except to the extent necessary to meet the liquidity requirements for honouring repurchases or redemptions, as disclosed in the offer document; and

(c) pending deployment of funds in accordance with clause (b), the mutual fund may invest such funds in short term deposits of

scheduled commercial banks."

In the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, in Regulation 44, after sub-regulation (1) the following clause shall be inserted as follows: - "Provided that nothing in the Seventh Schedule shall apply to a gold exchange traded fund scheme ." by the Securities and Exchange Board of India Act, 1992.

[30] Inserted vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L]

[31] Inserted vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L]

In the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, in Regulation 44, after sub-regulation (4), the following sub-regulation shall be inserted, namely:- "(5) A gold exchange traded fund scheme shall be subject to the following investment restrictions: (a) the initial issue expenses in respect of any such scheme shall not exceed six percent of the funds raised under that scheme; (b) the funds of any such scheme shall be invested only in gold or gold related instruments in accordance with its investment objective, except to the extent necessary to meet the liquidity requirements for honouring repurchases or redemptions, as disclosed in the offer document; and (c) pending deployment of funds in accordance with clause (b), the mutual fund may invest such funds in short term deposits of scheduled commercial banks." by the Securities and Exchange Board of India Act, 1992

#### **45. Option trading etc :-**

The funds of a scheme shall not in any manner be used in option trading or in short selling or carry forward transactions.

**5859** "Provided that a mutual fund may enter into derivatives transactions in a recognised stock exchange, subject to such Guidelines as may be specified by the Board."

Inserted by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 1999

In the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 in regulation 45, the proviso shall be substituted in place of :- "Provided that mutual funds shall enter into derivatives transactions in a recognised stock exchange for the

purpose of hedging the portfolio balancing, in accordance with the guidelines issued by the Board." by the Securities and Exchange Board of India Act, 1992 (15 of 1992).

#### **46. Underwriting of Securities :-**

Mutual funds may enter into underwriting agreement after obtaining a certificate of registration in terms of the Securities and Exchange Board of India (Underwriters) Rules and Securities and Exchange Board of India (Underwriters) Regulations, 1993 authorising it to carry on activities as underwriters.

Explanation :

(1) For the purpose of these regulations, the underwriting obligation will be deemed as if investments are made in such securities.

(2) The capital adequacy norms for the purpose of underwriting shall be the net assets of the scheme:

Provided that the underwriting obligation of a mutual fund shall not at any time exceed the total net asset value of the scheme.

#### **47. Method of valuation of Investments :-**

Every mutual fund shall compute and carry out valuation of its investments in its portfolio and publish the same in accordance with the valuation norms specified in Eighth Schedule.

#### **48. Computation of Net Asset Value :-**

(1) Every mutual fund shall compute the Net Asset Value of each scheme by dividing the net assets of the scheme by the number of units outstanding on the valuation date.

(2) The Net Asset Value of the scheme shall be calculated and published at least in two daily newspapers at intervals of not exceeding one week : Provided that the Net Asset Value of any scheme for special target segment or any monthly income scheme which are not mandatorily required to be listed in any stock exchange under regulation 32, may publish the Net Asset Value at monthly or quarterly intervals as may be permitted by the Board.

#### **49. Pricing of Unites :-**

(1) The price at which the units may be subscribed or sold and the price at which such units may at any time be repurchased by the mutual fund shall be made available to the investors.

(2) The mutual fund, in case of open-ended scheme, shall at least once a week publish in a daily newspaper of all India circulation, the sale and repurchase price of units.

(3) While determining the prices of the units, the mutual fund shall ensure that the repurchase price is not lower than 93 per cent of the Net Asset Value and the sale price is not higher than 107 per cent of the Net Asset Value :

Provided that the repurchase price of the unit of a close ended scheme shall not be lower than 95 per cent of the Net Asset Value :

Provided further that the difference between the repurchase price and the sale price of the unit shall not exceed 7 per cent calculated on the sale price.

**60**"Provided further that no entry load shall be charged by any close-ended scheme after commencement of the Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2006."

"

(3A) Where a mutual fund repurchases units in a close ended scheme which fulfills the conditions mentioned in sub-regulation (3B), it shall deduct an amount representing proportionate initial issue expenses or part thereof remaining unamortized, from the repurchase proceeds.

Explanation: The term 'proportionate initial issue expenses or part thereof remaining unamortised' refers to such proportion of the expenses of the scheme as are attributable to the units being repurchased.

(3B) The conditions referred to in sub-regulation (3A) are the following:

(a) the scheme is launched after commencement of the Securities and Exchange Board of India ("Mutual Funds) (Second Amendment) Regulations, 2006; and

(b) initial issue expenses in respect of the scheme have been charged or are proposed to be charged to the mutual fund, as per clause (a) of sub-regulation (4) of regulation 52.

(3C) The amount recovered under sub-regulation (3A) shall be credited to the unamortized initial issue expenses of the scheme."

(4) The price of units shall be determined with reference to the last determined Net Asset Value as mentioned in sub-regulation (3) unless-

(a) the scheme announces the Net Asset Value on a daily basis; and

**61** (b) the sale price is determined with or without a fixed premium added to the future net asset value which is declared in advance.

In the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 in regulation 49, in sub-regulation (3), after the two existing provisos, the following further proviso shall be inserted, namely: "Provided further that no entry load shall be charged by any close-ended scheme after commencement of the Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2006." by the Securities and Exchange Board of India Act, 1992 (15 of 1992).

[32] Substituted for " (b) the sale price is determined by adding to the future Net Asset Value a fixed premium which is declared in advance. ", vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt. 12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98][L]

## CHAPTER 7

### GENERAL OBLIGATIONS

#### **50. To maintain proper books of account and records, etc :-**

(1) Every asset management company for each scheme shall keep and maintain proper books of account, records and documents, for each scheme so as to explain its transactions and to disclose at any point of time the financial position of each scheme and in particular give a true and fair view of the state of affairs of the fund and intimate to the Board the place where such books of account, records and documents are maintained.

(2) Every asset management company shall maintain and preserve for a period of **62** ["eight years"] its books of account, records and documents.

(3) The asset management company shall follow the accounting policies and standards as specified in Ninth Schedule so as to provide appropriate details of the scheme-wise disposition of the assets of the fund at the relevant accounting date and the

performance during that period together with information regarding distribution or accumulation of income accruing to the unit holder in a fair and true manner.

[33]Substituted for "ten years ", vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L]

### **51. Financial year :-**

The financial year for all the schemes shall end as of March 31st of each year: Provided that, for a new scheme commenced during a financial year, the disclosure and reporting requirements would apply for the period beginning from the date of its commencement and ending on March 31st of the <sup>63</sup> ["that financial year"].

[34]Substituted for "following year", vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L]

### **52. Limitation on fees and expenses on issue of schemes :-**

(1) All expenses should be clearly identified and appropriated in the individual schemes.

(2) The Asset Management Company may charge the mutual fund with investment and advisory fees which are fully disclosed in the offer document subject to the following, namely:-

(i) One and a quarter of one per cent of the weekly average net assets outstanding in each accounting year for the scheme concerned, as long as the net assets do not exceed Rs. 100 crores, and

(ii) One per cent of the excess amount over Rs. 100 crores. where net assets so calculated exceed Rs. 100 crores.

(3) For schemes launched on a no load basis, the asset management company shall be entitled to collect an additional management fee not exceeding 1% of the weekly average net assets outstanding in each financial year,

(4) In addition to the fees mentioned in sub-regulation (2), the asset management company may charge the mutual fund with the following expenses, namely :-

**64**"(a) initial expenses of launching close-ended schemes, which shall be accounted in the books of account of the scheme in accordance with the Tenth Schedule;"

(b) recurring expenses including:-

(i) marketing and selling expenses including agents' commission, if any ;

(ii) brokerage and transaction cost ;

(iii) registrar services for transfer of units sold or redeemed ;

(iv) fees and expenses of trustees;

(v) audit fees;

(vi) custodian fees ; and

**65**(vii) costs related to investor communication;

(viii) costs of fund transfer from location to location;

(ix) cost of providing account statements and dividend/redemption cheques and warrants;

(x) insurance premium paid by the fund;

(xi) winding up costs for terminating a fund or a scheme;

(xii) costs of statutory advertisements;

**66**"(xii-a) in case of a gold exchange traded fund scheme, recurring expenses incurred towards storage and handling of gold; and,"

(xiii) such other costs as may be approved by the Board.

(5) Any expense other than those specified in sub-regulations (2) and (4) shall be borne-by the asset management company<sup>67</sup>["or trustee or sponsors"] : **6869**"Provided that initial expenses of launching a close-ended scheme shall not exceed six per cent of initial resources raised under that scheme."

(6) The total expenses of the scheme excluding issue or redemption expenses, whether initially borne by the mutual fund or by the

asset management company, but including the investment management and advisory fee shall be subject to the following limits :-

(i) On the first Rs. 100 crores of the average weekly net assets 2,5%

(ii) On the next Rs. 300 crores of the average weekly net assets 2.25%

(iii) On the next Rs. 300 crores of the average weekly net assets 2.0%

(iv) On the balance of the assets 1.75%:

Provided that such recurring expenses shall be lesser by at least 0.25% of the weekly average net assets outstanding in each financial year in respect of a scheme investing in bonds.

## **70**

"Provided further that in case of a fund of funds scheme, the total expenses of the scheme including the management fees shall not exceed 0.75% of the daily or weekly average net assets, depending upon whether the NAV of the scheme is calculated on daily or weekly basis."

(7) Any expenditure in excess of the limits specified in sub-regulation (6) shall be borne by the asset management company.

**71** ["or by the trustee or sponsors"]

(8) The provisions of sub-regulations (3), (4), (5) and (6) will come into effect [from 1st April, 1997] for those schemes of mutual funds which have been launched prior to notification of these regulations.

In the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 in regulation 52, in sub-regulation (4), clause (a) shall be substituted in place of :- "(a) initial expenses of launching schemes;" by the Securities and Exchange Board of India Act, 1992 (15 of 1992).

[60] Inserted vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L]

In the Securities and Exchange Board of India (Mutual Funds)

Regulations, 1996, after 'sub-clause (xii), the following sub-clause shall be inserted, namely: "(xii-a) in case of a gold exchange traded fund scheme, recurring expenses incurred towards storage and handling of gold; and," by the Securities and Exchange Board of India Act, 1992

[61]Inserted vide " SECURITIES AND EXCHANGBOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L]

In the Securities and Exchange Board of India(Mutual Funds) Regulations, 1996 in regulation 52,in sub-regulation (5), the first proviso shall be substituted with the following, namely-- Provided that initial expenses of floating the scheme shall not exceed six per cent of the initial resources raised under that scheme and such expenses shall be accounted in the books of account of the scheme as specified in the Tenth Schedule. "Provided further that any excess over the 6% initial issue expense shall be borne by the asset management company". by the Securities and Exchange Board of India Act, 1992 (15 of 1992).

[35]Inserted vide " SECURITIES AND EXCHANGBOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98][L]

The Proviso Inserted by "The Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2003".

[62]Inserted vide " SECURITIES AND EXCHANGBOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L]

### **52A. Declaration of dividends :-**

**72** A mutual fund may declare dividends in accordance with the offer document and subject to such Guidelines as may be specified by the Board."

In the Securities and Exchange Board of India(Mutual Funds) Regulations,1996 after regulation 52,regulation 52A shall be inserted, namely:-- "Declaration of dividends 52A. A mutual fund may declare dividends in accordance with the offer document and subject to such Guidelines as may be specified by the Board." by the Securities and Exchange Board of India Act, 1992 (15 of 1992).

### **53. Despatch of warrants and proceeds :-**

Every mutual fund and asset management company shall,

(a) despatch to the unit holders the dividend warrants within <sup>2</sup>[30] days of the declaration of the dividend;

(b) despatch the redemption or repurchase proceeds within 10 working days from the date of redemption or repurchase.

**74**"(c) In the event of failure to despatch the redemption or repurchase proceeds within the period specified in sub-clause (b), the asset management company shall be liable to pay interest to the unitholders at such rate as may be specified by Board for the period of such delay.

(d)**75** Notwithstanding payment of such interest to the unitholders under sub-clause (c), the asset management company may be liable for penalty for failure to despatch the redemption or repurchase proceeds within the stipulated time."

In Regulation 53, Clause (a), the words "42 days" the words "30 days" shall be substituted by Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2001. Noti. No. F.No.SEBI/LEI/32858/2001, dated 23/7/2001, Gas. of India, Exty., Pt.II-Sec. 3(ii), No. 501, dt. 23/7/2001, page.5. Inserted by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2000

#### **54. Annual Report :-**

Every mutual fund or the asset management company shall prepare in respect of each financial year an annual report and annual statement of accounts of the schemes and the fund as specified in Eleventh Schedule.

#### **55. Auditors report :-**

(1) Every mutual fund shall have the annual statement of accounts audited by an order who is not in any way associated with the auditor of the asset management company. Explanation : For the purposes of this sub-regulation and regulation 66 "auditor" means a person who is qualified to audit the accounts of a company under section 224 of the Companies Act, 1956 (I of 1956).

(2) An auditor shall be appointed by the trustees.

(3) The auditor shall forward his report to the trustees and such report shall form part of the Annual Report of the mutual fund.

(4) The auditor's report shall comprise the following :-

(a) a certificate to the effect that,-

(i) he has obtained all information and explanations which, to the best of his knowledge and belief, were necessary for the purpose of the audit ;

(ii) the balance sheet and the revenue account give a fair and true view of the scheme, state of affairs and surplus or deficit in the Fund for the accounting period to which the Balance Sheet or, as the case may be, the Revenue Account relates;

(iii) the statement of account has been prepared in accordance with accounting policies and standards as specified in the Ninth Schedule.

**56. [Mailing] of Annual Report and summary thereof :-**  
**76**

(1) The scheme wise Annual Report of a mutual fund or an abridged summary thereof **77**[\* \* \* \* \*] shall be mailed to all unit holders as soon as may be but not later than six months from the date of closure of the relevant accounts year.

(2) The Annual Report and abridged summary thereof shall contain details as specified in the Eleventh 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. **78**["Provided that the abridged schemewise annual report mailed to unitholders need not contain full portfolio disclosure but must contain details on group company investments such as the name of the company, the amount of investment made in each company of the group by each scheme and the aggregate investments made by all schemes in the group companies of the sponsor: **79**[\* \* \* \* \* ]

(3) The report **80**["mailed in abridged summary form as per sub-regulation (1)"] shall carry a note that **81** ["for unitholders of a scheme"] full Annual Report shall be available for inspection at the Head Office of the mutual fund and a copy thereof shall be made available to unit holder on payment of such nominal fees as may be specified by the mutual fund.

In regulation 56, in heading for the word "Publication" in word "Mailing" shall be substituted by Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2002., Noti. No. F. No. SEBI/LE/2834/2002, date. 20/02/2002, Gaz. of India, Exty., Part. II, Sec. 3(ii), No. 184, date. 20/02/2002, page.2.

In regulation 56, Sub-regulation (1), the words ["shall be published through an advertisement and an abridged scheme wise annual

report"], shall be omitted by Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2002., Noti. No. F. No. SEBI/LE/2834/2002, date. 20/02/2002, Gaz. of India, Exty., Part. II, Sec. 3(ii), No. 184, date. 20/02/2002, page.2.

[37]Inserted vide " SECURITIES AND EXCHANGBOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98][L]

In regulation 56, in Sub-regulation (2), the words ["provided further that full portfolio disclosure is not required if the full accounts are published in news papers" ], shall be omitted by Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2002., Noti. No. F. No. SEBI/LE/2834/2002, date.20/02/2002, Gaz. of India, Exty., Part. II, Sec. 3(ii), No. 184, date. 20/02/2002, page.2.

In regulation 56, in Sub-regulation (3), the words ["if published in summary form" ], shall be substituted by Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2002., Noti. No. F. No. SEBI/LE/2834/2002, date. 20/02/2002, Gaz. of India, Exty., Part. II, Sec. 3(ii), No. 184, date. 20/02/2002, page.2.

[38]Inserted vide " SECURITIES AND EXCHANGBOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98][L]

### **57. Annual Report to be forwarded to the Board :-**

Every mutual fund <sup>82</sup> [\*\*\*] shall within six months from the date of closure of each financial year forward to the Board a copy of the Annual Report and other information including details of investments and deposits held by the mutual fund so that the entire schemewise portfolio of the mutual funds is disclosed to the Board.

[39]Omitted for "and asset management company", vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98][L]

### **58. Periodic and continual disclosures :-**

(1) The mutual fund, the asset management company, the trustee,

custodian, sponsor of Substituted for 'after three months from the date of notification of these regulations by the SEBI (Mutual Funds) Amendment Regulations, 1997, w.e.f. 15-4-1997. the mutual fund shall make such disclosures or submit such documents as they may be called upon to do so by the Board.

(2) Without prejudice to the generality of sub-regulation (1), the mutual fund <sup>83</sup> [\*\*\*] shall furnish the following periodic reports to the Board, namely:-

(a) copies of the duly audited annual statements of accounts including the balance sheet and the profit and loss account for the fund and in respect of each scheme, once a year;

(b) a copy of six monthly unaudited accounts;

(c) a quarterly statement of movements in the net assets for each of the schemes of the fund;

(d) a quarterly portfolio statement, including changes from the previous periods, for each scheme.

(3) No sale of units of any scheme of a mutual fund shall be made by the trustees or an asset management company unless accompanied by documents which contain information which is adequate for the investors to take an informed decision.

[40] Omitted for "and the asset management company ", vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L]

### **59. Half-yearly disclosures :-**

A mutual fund and asset management company shall before the expiry of <sup>84</sup>[one] months from the close of each half year that is on 31st March and on 30th September, publish its unaudited financial results in one English daily newspaper circulating in the whole of India and in a newspaper published in the language of the region where the Head Office of the mutual fund is situated <sup>85</sup> ["The half-yearly results must be printed in at least 7 point Times Roman font with proper spacing for easy reading:"]:

Provided that the half-yearly unaudited report referred 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.

The words "two months", the words "one month" shall be substituted by Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2001. Noti. No. F.No.SEBI/LEI/32858/2001, dated 23/7/2001, Gas. of India, Exty., Pt.II-Sec. 3(ii), No. 501, dt. 23/7/2001, page.5.

The words shall be added after 'mutual fund is situated'. Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2001. Noti. No. F.No.SEBI/LEI/32858/2001, dated 23/7/2001, Gas. of India, Exty., Pt.II-Sec. 3(ii), No. 501, dt. 23/7/2001, page.5.

**59A.** :-

**86** A mutual fund shall before the expiry of one month from the close of each half year (i.e. 31" March and 30\*" September), send to all unit holders a complete statement of its scheme portfolio. Provided that statement of scheme portfolio may not be sent to the unit holders, if the statement is published, by way of an advertisement, in one English daily circulating in the whole of India and in a newspaper published in the language of the region where the head office of the mutual fund is situated."

Inserted by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2000

**60. Disclosures to the investors** :-

The trustee shall be bound to make such disclosures to the unit holders as are essential in order to keep them informed about any information which may have an adverse bearing on their investments.

**CHAPTER 8**

**INSPECTION AND AUDIT**

**61. Boards right to inspect and investigate** :-

(1) The Board may appoint one or more persons as inspecting officer to undertake the inspection of the books of account, records, documents and infrastructure, systems and procedures or to investigate the affairs of a mutual fund, the trustees and asset management company for any of the following purposes, namely :-

(a) to ensure that the books of account are being maintained by the mutual fund, the trustees and asset management company in the manner specified in these regulations;

(b) to ascertain whether the provisions of the Act and these regulations are being complied with by the mutual fund, the trustees and asset management company ;

(c) to ascertain whether the systems, procedures and safeguards followed by the mutual fund are adequate;

(d) to ascertain whether the provisions of the Act or any rules or regulations made thereunder have been violated ;

(e) to investigate into the complaints received from the investors or any other person on any matter having a bearing on the activities of the mutual funds, trustees and asset management company:

(f) to suo motu ensure that the affairs of the mutual fund, trustees or asset management company are being conducted in a manner which is in the interest of the investors or the securities market.

## **62. Notice before Inspection and Investigation :-**

(1) Before ordering an inspection or investigation under regulation 61 the Board shall give not less than ten days notice to the mutual fund, asset management company or trustees as the case may be.

(2) Notwithstanding anything contained in sub-regulation (1), where the Board is satisfied that in the interest of the investors no such notice should be given, it may, by an order in writing direct that such inspection or investigation be taken up without such notice.

(3) During the course of inspection or investigation, the mutual fund, trustees or asset management company against whom the inspection or investigation is being carried out shall be bound to discharge his obligations as provided in regulation 63.

## **63. Obligations on Inspection and investigation :-**

(1) It shall be the duty of the mutual fund, trustees or asset management company whose affairs are being inspected or investigated, and of every director, officer and employee thereof, to produce to the inspecting "officer such books, accounts, records, and other documents in its custody or control and furnish him such statements and information relating to the activities as mutual funds, trustees or asset management company, as the inspecting officer may require, within such reasonable period as the inspecting officer may specify.

(2) The mutual fund, trustees or asset management company shall allow the inspecting officer to have a reasonable access to the premises occupied by it or by any other person on its behalf and also extend reasonable facility for examining any books, records, documents, and computer data in the possession of the mutual fund, trustees and asset management company or such other person and also provide copies of documents or other materials which in the opinion of the inspecting officer are relevant for the purpose of the inspection.

(3) The inspecting officer, in the course of inspection or investigation, shall be entitled to examine or record the statements of any director, officer, or employee of the mutual fund, trustees and asset management company.

(4) It shall be the duty of every director, officer, or employee of the mutual fund, asset management company or trustee to give to the inspecting officer all assistance in connection with the inspection or investigation, which the inspecting officer may reasonably require.

**64. Submission of report to the Board :-**

The inspecting officer shall, as soon as possible, on completion of the inspection or investigation submit a report of the Board : Provided that if directed to do so by the Board, he may submit an interim report.

**65. Communication of findings, etc :-**

(1) The Board shall, after consideration of the inspection report or investigation report referred to in regulation 64, communicate the findings of the inspecting officer to the mutual fund, trustees or asset management company, as the case may be, and give him an opportunity of being heard: Provided that if any proceedings under Chapter VIII are initiated the procedure under Chapter VIII shall be followed.

(2) On receipt of the reply, if any, from the mutual fund, trustees or asset management company, as the case may be, the Board may call upon the trustees or asset management company to take such measures as the Board may deem fit in the interest of the investors, securities market and for due compliance with the provisions of these regulations.

**66. Appointment of auditor :-**

(1) Without prejudice to the provisions of regulation 55, the Board shall have the power to appoint an auditor to inspect or investigate, as the case may be, into the books of account or the affairs of the mutual fund, trustee or asset management company : Provided that the Auditor so appointed shall have the same powers of the inspecting officer as stated in regulation 61 and the obligation of the mutual fund, asset management company, trustee, and their respective employees in regulation 63, shall be applicable to the investigation under this regulation.

**67. Payment of inspection fees to the Board :-**

The Board shall be entitled to recover such expenses including fees paid to the auditors as may be incurred by it for the purposes of inspecting the books of account, records and documents of the mutual fund, the trustees and the asset management company.

CHAPTER 9

PROCEDURE FOR ACTION IN CASE OF DEFAULT

**68. Suspension of certificate :-**

The Board may suspend a certificate granted to a mutual fund if such mutual fund -

(a) contravenes any of the provisions of the Act and these regulations ;

(b) fails to furnish any information or furnishes wrong information relating to its activity as a mutual fund as required under these regulations ;

(c) fails to submit periodical returns as required under these regulations ;

(d) does not co-operate in any inquiry or inspection conducted by the Board

;

(e) fails to comply with any directions of the Board issued under the provisions of the Act or the regulations;

(f) fails to resolve the complaints of the investors or fails to give a satisfactory reply to the Board in this behalf ;

(g) indulges in unfair trade practices in securities.

Explanation : For the purposes of this clause "unfair trade practices" has the same meaning as in Securities and Exchange

Board of India (Fraudulent and Unfair Trade Practices in Securities Market) Regulations, 1995 ;

(h) is guilty of misconduct or improper or unbusinesslike or unprofessional conduct which is not in accordance with the Code of Conduct specified in the Fifth Schedule ;

(i) asset management company fails to maintain the networth in accordance with the provisions of regulation 21 ;

(j) fails to pay any fees ;

(k) violates the conditions of registration ;

(l) mutual fund, asset management company or trustees of that mutual fund does not carry out its obligations as specified in these regulations.

**69. Cancellation of certificate :-**

The Board may cancel the certificate of registration granted to a mutual fund, if such mutual fund-

(a) is guilty of fraud, or has been convicted of an economic offence ;

(b) has been guilty of repeated defaults of the nature specified in regulation 68 ;

(c) the mutual fund, asset management company, trustee of that mutual fund indulges in price manipulation or price rigging or cornering activities affecting the securities market and the investors interest ;

(d) the financial position of the mutual fund deteriorates to such an extent that the Board is of the opinion that its continuance is not in the interest of unit holders and other mutual funds.

**70. Manner of making order of cancellation or suspension :-**

No order of suspension or cancellation of certificate or the approval, as the case may be, shall be made by the Board against a mutual fund, trustees, asset management company except after holding an enquiry in accordance with the procedure specified in regulation 71.

**71. Manner of holding enquiry before suspension or cancellation :-**

(1) For the purpose of holding an enquiry, under regulation 70 the Board may appoint one or more enquiry officers.

(2) The enquiry officer shall issue to the mutual fund, asset management company or the trustee, as the case may be, at its registered office or the principal place of its business, a notice setting out the grounds on which action is proposed to be taken against it and calling upon it to show cause against such action within a period of fourteen days from the date of receipt of the notice.

(3) The mutual fund, asset management company or trustee shall within fourteen days of the date of receipt of such notice, furnish to the enquiry officer a written reply, together with copies of documentary or other evidence relied on by it or sought by the Board from the mutual fund, trustees, or asset management company.

(4) The enquiry officer shall give a reasonable opportunity of hearing to the mutual fund, trustees, or asset management company, to enable it to make submissions in support of its reply made under sub-regulation (3).

(5) Before the enquiry officer, the mutual fund, trustees or asset management company may either appear in person or through any person duly authorised by the mutual fund, trustees or asset management company : Provided that no lawyer or advocate shall be permitted to represent the mutual fund, trustees or asset management company at the enquiry : Provided further that where a lawyer or an advocate has been appointed by the Board as a presenting officer under sub-regulation (6), it shall be lawful for the mutual fund, asset management company or trustee to present its case through a lawyer or advocate.

(6) The enquiry officer may if he considers it necessary, ask the Board to appoint a presenting officer to present its case.

(7) The enquiry officer shall, after taking into account all relevant facts and submissions made by the mutual fund, trustees or asset management company submit a report to the Board and recommend the action, if any, to be taken against the mutual fund, trustees or asset management company as also the grounds on which the penal action is justified.

## **72. Show-cause notice and order :-**

(1) On receipt of the report from the enquiry officer, the Board shall consider the same and issue to the mutual fund, trustees or

asset management company, a show-cause notice.

(2) The mutual fund, asset management company or trustee, shall within fourteen days of the date of the receipt of the show-cause notice, send a reply to the Board.

(3) The Board, after considering the reply of the mutual fund, trustees or asset management company, if any, shall as soon as possible pass such order as it deems fit.

(4) The Board shall send to the mutual fund, trustees, or asset management company, a copy of the order made under sub-regulation (3).

**73. Effect of suspension or cancellation of certificate of registration :-**

(1) On and from the date of the suspension of the certificate or the approval, as the case may be, the mutual fund, trustees or asset management company, shall cease to carry on any activity as a mutual fund, trustee or asset management company, during the period of suspension, and shall be subject to the directions of the Board with regard to any records, documents, or securities that may be in its custody or control, relating to its activities as mutual fund, trustees or asset management company.

(2) On and from the date of cancellation of the certificate or the approval, as the case may be, the mutual fund, trustees or asset management company shall with immediate effect, cease to carry on any activity as mutual fund, trustees or asset management company, as the case may be.

(3) The Board may in the interest of the unit holders issue directions with regard to the transfer of any records, documents or securities that may be in its custody or control, relating to its activities as mutual fund, trustees or asset management company.

(4) The Board may in order to protect the interest of the unit holders order the transfer of records, documents, securities, etc. to any person specifically appointed for the purpose or to any other trustee or asset management company : Provided that the Board shall while appointing such a person determine the terms and conditions of such an appointment.

**74. Publication of order of suspension or cancellation :-**

The order of suspension or cancellation passed under sub-

regulation (3) of regulation 72, may be published by the Board in two newspapers.

**75. Action against intermediaries :-**

The Board may initiate action for suspension or cancellation of registration of an intermediary holding a certificate of registration under section 12 of the Act who fails to exercise due diligence or to comply with the obligations under these regulations : Provided that no such certificate of registration shall be suspended or cancelled unless the procedure specified in the regulations applicable to such intermediary is complied with.

**76. Adjudication, etc :-**

(1)The Board may for the offences specified in sections 15A to 15E of the Act initiate action under section 151 of the Act and in case of violation of any of the provisions of the Act or the regulations, initiate action under section 11 , 11B or section 24 of the Act.

(2) The Board may in addition to suspension or cancellation of certificate, order suspension of launching of any scheme of a mutual fund for a period not exceeding one year for violation of any of the provisions of these regulations after following procedure under this Chapter.

(3) The Board may during the pendency of any proceeding of suspension or cancellation under this Chapter also order suspension for launching of any scheme not exceeding three months without following procedure under this Chapter : Provided that no order shall be passed without giving an opportunity of hearing.

CHAPTER 10  
MISCELLANEOUS

**77. Power of the Board to issue clarifications :-**

In order to remove any difficulties in the application or interpretation of these regulations, the Board shall have the power to issue clarifications and guidelines in the form of notes or circulars which shall be binding on the sponsor, mutual funds, trustees, asset management companies and custodians.

**78. Repeal and saving :-**

(1) The Securities and Exchange Board of India (Mutual Funds) Regulations, 1993 are hereby repealed.

(2) Notwithstanding such repeal :



Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 [Regulation 15(1)] Contents of the Trust Deed The Trust Deed shall contain the following clauses namely -

1. (i) A trustee in carrying out his responsibilities as a member of the Board of Trustees or of trustee company, shall maintain arms' length relationship with other companies, or institutions or financial intermediaries or any body corporate with which he may be associated. (ii) No trustee shall participate in the meetings of the Board of Trustees or trustee company when any decisions for investments in which he may be interested are taken. (iii) All the trustees shall furnish to the board of trustees or trustee company particulars of interest which he may have in any other company, or institution or financial intermediary or any corporate body by virtue of his position as director, partner or with which he may be associated in any other capacity.
2. Minimum-number of trustees must be mentioned in the Trust Deed.
3. The Trust Deed must provide that the trustees shall take into their custody, or under their control all the property of the schemes of the mutual fund and hold it in trust for the unitholders.
4. The Trust Deed must specifically provide that unitholders would have beneficial interest in the trust property to the extent of individual holding in respective schemes only.
5. The Trust Deed shall provide that it would be the duty of the trustees to act in the interest of the unitholders.
6. The Trust Deed shall provide that it is the duty of trustees to provide or cause to provide information to unitholders and Board as may be specified by the Board.
7. The Trust Deed shall provide that the trustees shall appoint an asset management company approved by the Board, to float schemes for the mutual fund after approval by the trustees and Board, and manage the funds mobilised under various schemes, in accordance with the provisions of the Trust Deed and Regulations. The trustees shall enter into an Investment Management Agreement with the asset management company for this purpose, and shall enclose the same with the Trust Deed.
8. The Trust Deed shall provide for the duty of the trustee to take reasonable care to ensure that the funds under the schemes floated by and managed by the asset management company are in accordance with the Trust Deed and Regulations.
9. The Trust Deed must provide for the power of the trustees to dismiss the asset management company under the specific events only with the approval of Board in accordance with the Regulations.
10. The Trust Deed shall provide that the trustees shall appoint a custodian and shall be responsible for the supervision of its activities in relation to the mutual fund and shall enter into a Custodian Agreement with the custodian for this purpose.
11. The Trust Deed shall provide that the auditor for the mutual fund shall be different from the Auditor of the asset management company.
12. The Trust Deed shall provide for the responsibility of the trustees to supervise the collection of any income due to be paid to the scheme and for claiming any repayment of tax and holding any income received in trust for the holders in accordance with the Trust Deed, Regulations.
13. Broad policies regarding allocation of payments to capital or income must be indicated in the Trust Deed.
14. The Trust Deed shall also explicitly forbid the acquisition of any asset out of the trust property which involves the assumption of any liability which is unlimited or shall not result in encumbrance of the trust property in any way.
15. The Trust Deed shall forbid the mutual fund <sup>88</sup>[41]Omitted for "and the asset management company", vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L] [\*\*\*], to make or guarantee loans or take up any activity not in contravention of the

Regulations. 16. Trusteeship fee, if any, payable to trustees shall be provided in the Trust Deed. 17. The Trust Deed shall provide that no amendment to the Trust Deed shall be carried out without the prior approval of the Board and unitholders is obtained : Provided however that in case a Board of trustees is converted into a trustee company subsequently such conversion shall not -require the approval of unitholders. 18. The removal of the trustee in all cases would require the prior approval of the Board. 19. The Trust Deed shall lay down the procedure for seeking approval of the unitholders under such circumstances as are specified in the Regulations. <sup>89</sup> Schedule 3 clause 20 shall be substituted by Securities and Exchange Board of India (Mutual Funds) (Third Amendment) Regulations, 2002., SEBI, Noti.No.S.O. 809(E), dated July 30, 2002, published in the Gazette of India. Extra., Part II, Section 3(ii), dated 30th July, 2002, pp. 3-4, No. 686 20. The Trust Deed shall state that a meeting of the trustees shall be held at least once in every two calendar months and at least six such meetings shall be held in every year. 21. The trust deed shall specify the quorum for a meeting of the trustees. Provided that the quorum for a meeting of the trustees shall not be constituted unless one independent trustee or director is present at the meeting. 22. The trust deed shall state that the minimum number of trustees shall be four."

#### SCHEDULE 4

#### FOURTH SCHEDULE

Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 [Regulation 18(2)] Contents of the investment management agreement The Investment Management Agreement shall contain the following provisions for the duties and responsibilities of the asset management company, namely :- (i) the asset management company appointed by the trustees with the prior approval of the Board shall be responsible for floating schemes for the mutual fund after approval of the same by the trustees and managing the funds mobilised under various schemes, in accordance with the provisions of the Trust Deed and Regulations; (ii) the asset management company shall not undertake any other business activity other than activities specified under <sup>90</sup>[42]Substituted for " regulation 23 ", vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L] ["sub-regulation (2) of Regulation 24"]and management of mutual funds and such other activities as financial services consultancy, exchange of research and analysis on commercial basis as long as these are not in conflict with the fund management activity itself without the prior approval of the trustees and Board; (iii) the asset management company shall invest the funds raised under various schemes in accordance with the provisions of the Trust Deed and the Regulations; (iv) the asset management company shall not acquire any of the assets out of the scheme property which involves the assumption of any liability which is unlimited or which may result in encumbrance of the scheme property in any way; (v) the asset management company shall not <sup>91</sup>[43]Omitted for "give or guarantee loans or ", vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L] [\*\*\*]take up any activity in contravention of the Regulations; (vi) no loss or

damage or expenses incurred by the asset management company or Officers of the asset management company or any person delegated by the asset management company, shall be met out of the trust property; (vii) the asset management company shall ensure that no <sup>92</sup>[44]Substituted for "application form, or sales literature or other printed matter issued to prospective buyers, or advertisement, or report and/ or announcement (other than an announcement of prices or yields) addressed to the general body of unitholders, or to the public, or to the press or other communications media, ", vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L] ["offer document of a scheme, key information memorandum, abridged half yearly results and annual results"]is issued or published without the trustees' prior approval in writing, and contains any statement or matter extraneous to the Trust Deed or Offer Document scheme particulars approved by the trustees and Board; (viia) the asset management company shall provide an option of nomination to the unit holders in terms of Regulation 29-A, in the form prescribed hereunder. (viii) the asset management company shall disclose the basis of calculating the repurchase price and NAV of the various schemes of the fund in the scheme particulars and disclose the same to the investors at such intervals as may be specified by the trustees and Board; (ix) the trustees shall have the right to obtain from the asset management company all information concerning the operations of the various schemes of the mutual fund managed by the asset management company at such intervals and in such a manner as required by the trustees to ensure that the asset management company is complying with the provisions of the Trust Deed, and Regulations; (x) the asset management company shall submit quarterly report on the functioning of the schemes of the mutual fund to the trustees or at such intervals as may be required by the trustees or Board; (xi) the trustee shall have the power to dismiss the asset management company under the specific events only with the approval of the Board in accordance with the Regulations.

FORM FOR NOMINATION/CANCELLATION OF NOMINATION
(to be filled in by individual(s) applying singly or jointly)
I/We..... and ..... *
do hereby nominate the person more particularly described hereunder/and/cancel the
nomination made by me/us on the ..... day of..... in respect of
the units bearing No. .....
(* strike out which is not applicable)
Name and Address of Nominee
Name :.....
Address :.....
Date of Birth:.....
(to be furnished in case the Nominee is a minor)

\* The Nominee is a minor whose guardian is :.....

Address of the Guardian

Signature of the guardian .....

(\* to be deleted if not applicable)

## SCHEDULE 5

### FIFTH SCHEDULE

Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 [Regulations 18(22), 25(16), 68(h)] Code of Conduct 1. Mutual funds schemes should not be organised, operated, managed<sup>93</sup>[45]Substituted for " or ", vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L] ['as']the portfolio of securities selected, in the interest of sponsors, directors of asset management companies, members of Board of trustees or directors of trustee company, associated persons or in the interest of special class of unitholders other than in the interest of all classes of unitholders of the scheme. 2. Trustees and asset management companies must ensure the dissemination to all unitholders of adequate, accurate, explicit and timely information fairly presented in a simple language about the investment policies, investment objectives, financial position and general affairs of the scheme. 3. Trustees and asset management companies should avoid excessive concentration of business with broking firms, affiliates and also excessive holding of units in a scheme among a few investors. 4. Trustees and asset management companies must avoid conflicts of interest in managing the affairs of the schemes and keep the interest of all unitholders paramount in all matters. 5. Trustees and asset management companies-must ensure schemewise segregation of <sup>94</sup>[46]Substituted for "cash", vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L] ["bank accounts"] and securities accounts. 6. Trustees and asset management companies shall carry out the business and invest in accordance with the investment objectives stated in the offer documents and take investment decision solely in the interest of unitholders. 7. Trustees and asset management companies must not use any unethical means to sell; market or induce any investor to buy their schemes. <sup>95</sup> Inserted by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 1999 "8. Trustees and he asset management company shall maintain high standards of integrity and fairness in all their dealings and in the conduct of their business 9. Trustees and the asset management company shall render at all times high standards of service, exercise due diligence, ensure proper care and

exercise independent professional judgment. 10. The asset management company shall not make any exaggerated statement, whether oral or written, either about their qualifications or capability to render investment management services or their achievements." <sup>96</sup>Inserted by "The Securities and Exchange Board of India (Investment Advice by Intermediaries)(Amendment)Regulations, 2001 (11)(a) The sponsor of the mutual fund, the trustees or the asset management company or any of their employees shall not render, directly or indirectly any investment advice about any security in the publicly accessible media, whether real-time or non real-time, unless a disclosure of his interest including long or short position in the said security has been made, while rendering such advice. (b) In cases, an employee of the sponsor, the trustee or the asset management company is rendering such advice, he shall also disclose the interest of his dependent family members and the employer including their long or short position in the said security, while rendering such a advice."

#### SCHEDULE 6

#### SIXTH SCHEDULE

Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 [Regulation 30(1)] Advertisement Code 1. An advertisement shall be truthful, fair and clear and shall not contain a statement, promise or forecast which is untrue or misleading. 2. An advertisement shall be considered to be misleading if it contains- (a) Misleading Statements: Representations made about the performance or activities of the mutual fund in the absence of necessary explanatory or qualifying statements, and which may give an exaggerated picture of the performance or activities, than what really is. ( b) An inaccurate portrayal of a past performance or its portrayal in a manner which implies that past gains or income will be repeated in the future. (c) Statements promising the benefits of owning units or investing in the schemes of the mutual funds without simultaneous mention of material risks associated with such investments. 3. The advertisement shall not be so designed in content and format or in print as to be 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. 4. The sales literature may contain only information, the substance of which is included in the Fund's current advertisements in accordance with this Code. 5. Advertisements shall not be so framed as to exploit the lack of experience or knowledge of the investors. As the investors may not be sophisticated in legal or financial matters, care should be taken that the advertisement is set forth in a clear, concise, and understandable manner. Extensive use of technical or legal terminology or complex language and the inclusion of excessive details which may detract the investors should be avoided. 6. The advertisement shall not contain information, the accuracy of which is to any extent dependent on assumptions. "Any advertisement that makes claims about the performance of the fund shall be supported by relevant figures." 7. The advertisement shall not compare one fund with another, implicitly or explicitly, unless the comparison is fair and all information relevant to the comparison is included in the advertisement. 8. The Funds which advertises yield must use standardised computations such as annual dividend on face value, annual yield on the purchase price, and annual compounded rate of return. 9. Mutual funds shall indicate in all advertisements, the names of the Settlor, Trustee, Manager and/or Financial Advisor to the Fund, bringing out clearly their legal status and liability of these entities, <sup>97</sup>[47]Omitted for "distinction between each of them, both legally and in terms of their functions,

responsibilities and obligations", vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L] [\*\*\*].<sup>98</sup>[48]Inserted vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L] ["9-A. All advertisements containing information regarding performance, advertising yield, return or any scheme detail or inviting subscription to the scheme shall contain disclosures of all the risk factors.".] 10. All advertisements shall also make a clear statement to the effect that all mutual funds and securities investments are subject to market risks, and there can be no assurance that the fund's objectives will be achieved, 11. If, however, in any Advertisement a mutual fund guarantees or assures any minimum rate of return or yield to prospective investors, resources to back such a guarantee shall also be indicated. 12. If any existing mutual fund indicates the past performance of the fund in advertisements, the basis for computing the rates of return/yield and adjustments made (if any) must be expressly indicated with a statement that, such information is not necessarily indicative of future results and may not necessarily provide a basis for comparison with other investments. "Any advertisement containing information regarding performance, NAV, yield or returns shall give such data for the past three years, wherever applicable." 13. All advertisements issued by a mutual fund or its sponsor or asset management company, shall state all investments in mutual funds and securities are subject to market risks' and the NAV of the schemes may go up or down depending upon the factors and forces affecting the securities market. 14. All advertisement launched in connection with the scheme should also disclose prominently the risks factors as stated in the offer document along with the following warning statements - (a) ..... is only the name of the scheme and does not in any manner indicate either the quality of the scheme, its future prospects or returns; and (b) please read the offer document before investing. <sup>99</sup> Inserted by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 1999 "14-A. Any advertisement reproducing or purporting to reproduce any information contained in a offer document shall reproduce such information in full and disclose all relevant facts and not be restricted to select extracts relating to that item which could be misleading.". "14-B. No celebrities shall form part of the advertisement." 15. No name can be given to a scheme with a view to subtly indicate any assurance of return, except in the cases of guaranteed return scheme in accordance with regulation 38. 16. No advertisement shall be issued stating that the scheme has been subscribed or oversubscribed during the period the scheme is open for subscription. 17. If a corporate advertisement is issued by the sponsor or any of the companies in the Group, or an associate company of the sponsor during the subscription period, no reference shall be made to the scheme of the mutual fund or mutual fund itself; otherwise it will be treated as an issue advertisement. 18. If a corporate advertisement of a sponsor issued prior to the launch of a scheme makes a reference to the mutual fund sponsored by it or any of its schemes launched/to be launched, it shall contain a statement to the effect that the performance of the sponsor has no bearing on the expected performance of the mutual

fund or any of its schemes. 19. Advertisements on the performance of a mutual fund or its Asset management company shall compare the past performances only on the basis of per unit of statistics as per these Regulations. Advertisements for NAVs must indicate the past as well as the latest NAV of a scheme. The yield calculations will be made as provided in these regulations.

#### SCHEDULE 7

#### SEVENTH SCHEDULE

Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 [Regulation 44(1)] Restrictions on Investments "1. A mutual fund scheme shall not invest more than 15% of its NAV in debt instruments issued by a single issuer which are rated not below investment grade by a credit rating agency authorised to carry out such activity under the Act. Such investment limit may be extended to 20% of the NAV of the scheme with the prior approval of the Board of Trustees and the Board of asset management company. Provided that such limit shall not be applicable for investment in government securities and money market instruments". "1-A. A mutual fund scheme shall not invest more than 10% of its NAV in unrated debt instruments issued by a single issuer and the total investment in such instruments shall not exceed 25% of the NAV of the scheme. All such investments shall be made with the prior approval of the Board of Trustees and the Board of asset management company." 2. No mutual fund under all its schemes should own more than ten per cent of any company's paid up capital carrying voting rights. 3. Transfers of investments from one scheme to another scheme in the same mutual fund shall be allowed only if,- (a) such transfers are done at the prevailing market price for quoted instruments on spot basis; <sup>101</sup>[49]Inserted vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L] ["Explanation.-'spot basis' shall have same meaning as specified by stock exchange for spot transactions.".] (b) the securities so transferred shall be in conformity with the investment objective of the scheme to which such transfer has been made. 4. A scheme may invest in another scheme under the same asset management company or any other mutual fund without charging any fees, provided that aggregate inter scheme investment made by the schemes under the same management or in schemes under the management of any other asset management company shall not exceed 5% of the net asset value of the mutual fund. Provided that this clause shall not apply to any fund of funds scheme" 5. The initial issue expenses in respect of any scheme may not exceed six per cent of the funds raised under that scheme. 6. Every mutual fund shall buy and sell securities on the basis of deliveries and shall in all cases of purchases, take delivery of relative securities and in all cases of sales, deliver the securities and shall in no case put itself in a position whereby it has to make short sale or carry forward transactions or engage in badla finance. "Provided that a mutual fund may enter into derivatives transactions in a recognised stock exchange, subject to such Guidelines as may be specified by the Board." 7. Every mutual fund shall get the securities purchased or transferred in the name of the mutual fund on account of the concerned scheme, wherever investments are intended to be of long term nature. 8. Pending deployment of funds of a scheme in securities in terms of investment objectives of the

scheme a mutual fund can invest the funds of the scheme in short term deposits of scheduled commercial banks. <sup>102</sup>[50]Inserted vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L] ["9. No mutual fund "Scheme" shall make any investment in : (a) any unlisted security of an associate or group company of the sponsor; or (b) any security issued by way of private placement by an associate or group company of the sponsor; or (c) the listed securities of group companies of the sponsor which is in excess of 30% of the net assets." ] <sup>103</sup> Inserted by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 1999 "9-A. No scheme of a mutual fund shall make any investment in any fund of funds scheme." "10. No mutual fund scheme shall invest more than 10 per cent of its NAV in the equity shares or equity related instruments of any company. Provided that, the limit of 10 per cent shall not be applicable for investments in index fund or sector or industry specific scheme.". "11. A mutual fund scheme shall not invest more than 5% of its NAV in the equity shares or equity related investments in case of open ended scheme and 10% of its NAV in case of close ended scheme." "12. A fund of funds scheme shall be subject to the following investment restrictions: (a) A fund of funds scheme shall not invest in any other fund of funds scheme; (b) A fund of funds scheme shall not invest its assets other than in schemes of mutual funds, except to the extent of funds required for meeting the liquidity requirements for the purpose of repurchase or redemptions, as disclosed in the offer document of fund of funds scheme."

#### SCHEDULE 8

#### EIGHTH SCHEDULE

104 In the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, in Eighth Schedule, after paragraph 3, the following paragraph shall be inserted, namely:- "3A. Value of gold: (1) The gold held by a gold exchange traded fund scheme shall be valued at the AM fixing price of London Bullion Market Association (LBMA) in US dollars per troy ounce for gold having a fineness of 995.0 parts per thousand, subject to the following: (a) adjustment for conversion to metric measures as per standard conversion rates; (b) adjustment for conversion of US dollars into Indian rupees as per the RBI reference rate declared by the Foreign Exchange Dealers Association of India (FEDAI); and (c) addition of - (i) transportation and other charges that may be normally incurred in bringing such gold from London to the place where it is actually stored on behalf of the mutual fund; and (ii) notional customs duty and other applicable taxes and levies that may be normally incurred to bring the gold from London to the place where it is actually stored on behalf of the mutual fund: Provided that the adjustment under clause (c) above may be made on the basis of a notional premium that is usually charged for delivery of gold to the place where it is stored on behalf of the mutual fund: Provided further that where the gold held by a gold exchange traded fund scheme has a greater fineness, the relevant LBMA prices of AM fixing shall be taken as the reference price under this sub-paragraph. (2) If the gold acquired by the gold exchange traded fund scheme is not in the form of standard bars, it shall be assayed and converted into standard bars which comply with the good delivery norms of the LBMA and thereafter valued in terms of sub-

paragraph (1)." by the Regulations may be called the Securities and Exchange Board of India (Mutual Funds) (Fourth Amendment) Regulations, 2006. Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 [Regulation 47] Investment Valuation Norms Mutual Fund shall value its investments according to the following valuation norms : NAV of a scheme as determined by dividing the net assets of the scheme by the number of outstanding units on the valuation date. 1. Traded Securities:- (i) The securities shall be valued at the last quoted closing price on the stock exchange. (ii) When the securities are traded on more than one recognised stock exchange, the securities shall be valued at the last quoted closing price on the stock exchange where the security is principally traded. It would be left to the asset management company to select the appropriate stock exchange, but the reasons for the selection should be recorded in writing. There should, however, be no objection for all scrips being valued at the prices quoted on the stock exchange where a majority in value of the investments are principally traded. (iii) Once a stock exchange has been selected for valuation of a particular security, reasons for change of the exchange shall be recorded in writing by the asset management company. (iv) When on a particular valuation day, a security has not been traded on the selected stock exchange, the value at which it is traded on another stock exchange may be used, (v) When a security is not traded on any stock exchange on a particular valuation day, the value at which it was traded on the selected stock exchange or any other stock exchange, as the case may be, on the earliest previous day may be used provided such date is not more than <sup>105</sup> Substituted for "sixty" in clause (1), in sub-clause (v) and in clause (2), in sub-clause (i) of Eighth Schedule, by the "Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2001". [thirty] days prior to the valuation date. 2. 'Non-traded Securities' - (i) When a security is not traded on any stock exchange for a period of <sup>106</sup> Substituted for "sixty" in clause (1), in sub-clause (v) and in clause (2), in sub-clause (i) of Eighth Schedule, by the "Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2001". [thirty] days prior to the valuation date, the scrip must be treated as a 'non-traded' scrip. (ii) Non-traded securities shall be valued "in-good faith" by the asset management company on the basis of appropriate valuation methods based on the principles approved by the Board of the asset management company. Such decision of the Board must be documented in the Board minutes and the supporting data in respect of each security so valued must be preserved. The methods used to arrive at values "in-good faith" shall be periodically reviewed by the trustees-and reported upon by the auditors as "fair and reasonable" in their report on the annual accounts of the fund. For the purpose of valuation of non-trader securities, the following principles should be adopted - (a) equity instruments shall generally be valued on the basis of capitalization of earnings solely or in combination with the net asset value; using for the purposes of capitalization, the price or earning ratios of comparable traded securities and with an appropriate discount for lower liquidity; (b) debt instruments shall generally be valued on a yield to maturity basis, the capitalization factor being determined for comparable traded securities and with an appropriate discount for lower liquidity; <sup>107</sup>[52]Inserted vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L] ["(c) while investments in call money, bills purchased under rediscounting

scheme and short term deposits with banks shall be valued at cost plus accrual; other money market instruments shall be valued at the yield at which they are currently traded. For this purpose, non-traded instruments that is instruments not traded for a period of seven days will be valued at cost plus interest accrued till the beginning of the day plus the difference between the redemption value and the cost spread uniformly over the remaining maturity period of the instruments; (cc) government securities will be valued at yield to maturity based on the prevailing market rate.".]

[\*\*<sup>108</sup>[51]Omitted for "(c) money market instruments may be valued on the basis' of quotations obtained from more than one dealer or broker; ", vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L] \*)] (d) in respect of convertible debentures and bonds, the non-convertible and convertible components shall be valued separately. The non-convertible component should be valued on the same basis as would be applicable to a debt instrument. The convertible component should be valued on the same basis as would be applicable to an equity instrument. If, after conversion the resultant equity instrument would be traded pari passu with an existing instrument which is traded, the value of the latter instrument can be adopted after an appropriate discount for the non- tradability of the instruments during the period presiding the conversion while valuing such instruments, the fact whether the conversion is optional should also be factored in ; (e) in respect of warrants to subscribe for shares attached to instruments, the warrants can be valued at the value of the share which would be obtained on exercise of the warrant as reduced by the amount which would be payable on exercise of the warrant. A discount similar to the discount to be determined in respect of convertible debentures (as referred to in sub- paragraph (d) above) must be deducted to account for the period which must elapse before the warrant can be exercised; (f) where instruments have been bought on 'repo' basis, the instrument must be valued at the resale price after deduction of applicable interest upto date of .resale. Where an instrument has been sold on a 'repo' basis, adjustment must be made for the difference between the repurchase price (after deduction of applicable interest upto date of repurchase) and the value of the instrument. If the repurchase price exceeds the value, the depreciation must be provided for and if the repurchase price is lower than the value, credit must be taken for the appreciation. 3. Until they are traded, the value of the "rights' shares should be calculated as :  $V_r = \frac{n}{m} \times (P_{ex} - P_{of})$  Where V = Value of rights n = No. of rights offered m = No. of original shares held  $P_{ex}$  = Ex-rights price  $P_{of}$  = Rights Offer Price Where the rights are not treated pari passu with the existing shares, suitable adjustment should be made to the value of rights. Where it is decided not to subscribe for the rights but to renounce them and renunciations are being traded, the rights can be valued at the renunciation value. "3A. Value of gold: (1) The gold held by a gold exchange traded fund scheme shall be valued at the AM fixing price of London Bullion Market Association (LBMA) in US dollars per troy ounce for gold having a fineness of 995.0 parts per thousand, subject to the following: (a) adjustment for conversion to metric measures as per standard conversion rates; (b) adjustment for conversion of US dollars into Indian rupees as per the RBI reference rate declared by the Foreign Exchange Dealers Association of India (FEDAI); and (c) addition of – (i) transportation and other charges that may be normally incurred in bringing such gold from London to the place where it

is actually stored on behalf of the mutual fund; and (ii) notional customs duty and other applicable taxes and levies that may be normally incurred to bring the gold from London to the place where it is actually stored on behalf of the mutual fund: Provided that the adjustment under clause (c) above may be made on the basis of a notional premium that is usually charged for delivery of gold to the place where it is stored on behalf of the mutual fund: Provided further that where the gold held by a gold exchange traded fund scheme has a greater fineness, the relevant LBMA prices of AM fixing shall be taken as the reference price under this sub-paragraph. (2) If the gold acquired by the gold exchange traded fund scheme is not in the form of standard bars, it shall be assayed and converted into standard bars which comply with the good delivery norms of the LBMA and thereafter valued in terms of sub-paragraph (1).” 4. All expenses and incomes accrued upto the valuation date shall be considered for computation of net asset value. For this purpose, while major expenses like management fees and other periodic expenses should be accrued on a day to day basis, other minor expenses and income need not be so accrued, provided the non-accrual does not affect the NAV calculations by more than 1%. 5. Any changes in securities and in the number of units be recorded in the books not later than the first valuation date following the date of transaction. If this is not possible given the frequency of the Net Asset Value disclosure, the recording may be delayed upto a period of seven days following the date of the transaction, provided that as a result of the non-recording, the Net Asset Value calculations shall not be affected by more than <sup>109</sup> Schedule 8, clause 5 figure "2%" shall be substituted by Securities and Exchange Board of India (Mutual Funds) (Third Amendment) Regulations, 2002., SEBI, Noti.No.S.O. 809(E), dated July 30, 2002, published in the Gazette of India. Extra., Part II, Section 3(ii), dated 30th July, 2002, pp. 3-4, No. 686 "1%". <sup>110</sup> Schedule 8, clause 6 shall be substituted by Securities and Exchange Board of India (Mutual Funds) (Third Amendment) Regulations, 2002., SEBI, Noti.No.S.O. 809(E), dated July 30, 2002, published in the Gazette of India. Extra., Part II, Section 3(ii), dated 30th July, 2002, pp. 3-4, No. 686 6. In case the Net Asset Value of a scheme differs by more than 1%. due to non-recording of the transactions, the investors or scheme/s as the case may be, shall be paid the difference in amount as follows:(i) If the investors are allotted units at a price higher than Net Asset Value or are given a price lower than Net Asset Value at the time of sale of their units, they shall be paid the difference in amount by the scheme.(ii) If the investors are charged lower Net Asset Value at the time of purchase of their units or are given higher Net Asset Value all the time of sale of their units, asset management company shall pay the difference in amount to the scheme. The asset management company may recover the difference from the investors.". <sup>111</sup> Clause (6) and (7) inserted clause (5) in Eighth Schedule, by the "Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2001". 7. The aggregate value of illiquid securities as defined in the guidelines shall not exceed 15% of the total assets of the scheme and any illiquid securities held above 15% of the total assets shall be valued in the manner as specified in the guidelines issued by Board.

## SCHEDULE 9

### NINTH SCHEDULE

Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 [Regulations 50(3), 55(4)(iii)] Accounting Policies and Standards (a) \For the purposes of the financial statements, mutual funds shall mark all

investments to market and carry investments in the balance sheet at market value. However, since the unrealised gain arising out of appreciation on investments cannot be distributed, provision has to be made for exclusion of this item when arriving at distributable income. Dividend income earned by a scheme should be recognised, not on the date the dividend is declared, but on the date the share is quoted on an ex-dividend basis. For investments which are not quoted on the stock exchange, dividend income must be recognised on the date of declaration.

(b) \In respect of all interest-bearing investments, income must be accrued on a day to day basis as it is earned. Therefore, when such investments are purchased, interest paid for the period from the last interest due date upto the date of purchase must not be treated as a cost of purchase but must be <sup>111</sup>[54]Substituted for "debited", vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L] ["credited"] to Interest Recoverable Account. Similarly. interest received at the time of sale for the period from the last interest due date upto the date of sale must not be treated as an addition to sale value but must be <sup>112</sup>[53]Substituted for "credited", vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L] ["debited"] to Interest Recoverable Account.

(c) \In determining the holding cost of investments and the gains or loss on sale 'of investments, the 'average cost' method must be followed. (d) \Transactions for purchase or sale of investments should be recognised as of the trade date not as of the settlement date, so that the effect of all investments traded during a financial year are recorded and reflected in the financial statements for that year. (e) \Where investment transactions take place outside the stock market, for example, acquisitions through private placement or purchases or sales through private treaty, the transaction should be recorded in the event of a purchase, as of the date on which the scheme obtains an enforceable obligation to pay the price or, in the event of a sale, when the scheme obtains an enforceable right to collect the proceeds of sale or an enforceable obligation to deliver the instruments sold. (f) \Bonus shares to which the scheme becomes entitled should be recognised only when the original shares on which the bonus entitlement accrues are traded on the stock exchange on an ex-bonus basis. Similarly, rights entitlements should be recognised only when the original shares on which the right entitlement accrues are traded on the stock exchange on an ex-rights basis. <sup>113</sup> Substituted in Ninth Schedule, for Clause (g) "(g) Where income receivable on investments has been accrued and has not been received for a period of 12 months beyond the due date, provision should be made by debit to the revenue account for the income so accrued and no further accrual of income should be made in respect of such investment.", by the "Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2001". (g) \Where income receivable on investments has accrued but has not been received for the period specified in the guidelines issued by the Board, provision shall be made by debiting to the revenue account the income so accrued in the manner specified by guidelines issued by the Board.". (h) \When in the case of an open-ended scheme units are sold, the difference between the

sale price and the face value of the unit, if positive, should be

<sup>114</sup>[55]Substituted for "credited", vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L] ["debited"] to reserves and if negative be debited to reserves, the face value being credited to Capital Account. Similarly, when in respect of such a scheme, units are repurchased, the difference between the purchase price and face value of the unit, if positive should be debited to reserves and, if negative, should be credited to reserves, the face value being debited to the capital account. (i) \In the case of an open-ended scheme, when units are sold an appropriate part of the sale proceeds should be credited to an Equalisation Account and when units are repurchased an appropriate amount should be debited to Equalisation Account. The net balance on this account should be credited or debited to the Revenue Account. The balance on the Equalisation Account debited or credited to the Revenue Account should not decrease or increase the net income of the fund but is only an adjustment to the distributable surplus. It should, therefore, be reflected in the Revenue Account only after the net income of the fund is determined. \ (j) \In a close-ended scheme which provide to the unitholders the option for an early redemption or repurchase their own units, the par value of the unit has to be credited to Capital Account and the difference between the purchase price and the par value, if positive, should be debited to reserves and, if negative, should be credited to reserves. (k) \A proportionate part of the unamortized initial issue expenses should also be transferred to the reserves so that the balance carried forward on that account is proportional to the number of units remaining outstanding. (l) \The cost of investments acquired or purchased should include brokerage, stamp charges and any charge customarily included in the broker's bought note. In respect of privately placed debt instruments any front-end discount offered should be reduced from the cost of the investment. \ (m) \Underwriting commission should be recognised as revenue only when there is no devolvement on the scheme. Where there is devolvement on the scheme, the full underwriting commission received and not merely the portion applicable to the devolvement should be reduced from the cost of the investment.

#### SCHEDULE 10

#### TENTH SCHEDULE

Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 [Regulation 52(4)(a)]<sup>115</sup> In the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 in section 78, in Tenth Schedule ,in the Heading, for the brackets, words and figures "[Regulation 52(5)]", the brackets, words and figures "[Regulation 52(4)(a)]" shall be substituted , by the Securities and Exchange Board of India Act, 1992 (15 of 1992). <sup>116</sup> In the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 in section 78, in Tenth Schedule ,in the Heading, for the words "initial issue Expenses", the words "Amortisation of Intiatl Issue Expenses for Close-ended Schemes" shall be substituted by the Securities and Exchange Board of India Act,1992 (15 of 1992). "Amortisation of Intiatl Issue Expenses for Close-ended Schemes" Accounting treatment with regard to initial issue expenses :- (a) Asset management companies may launch schemes either on a load" or 'no-load basis", or on a mixed basis with two classes of units in the same scheme - one with load and the other

without, load, provided that the implications of such load on the NAV for the investors shall be clearly explained through a worked-out example in the offer document. Asset Management Company <sup>117</sup>[56]Inserted vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L] ['Trustee Company or Sponsor'] may also launch "partial load" schemes in which a part of the load would be borne by the asset management companies and the balance by the scheme. However such schemes will not qualify to be 'no load" schemes and would be treated in the same manner as "load" schemes. In the case of a no load scheme, the initial issue expenditure shall be borne by the Asset Management Company. (b) For a closed-ended scheme floated on a load' basis, the initial issue expenses shall be amortised on a weekly basis over the period of the scheme : Provided that in case the schemes provides for partial redemption during the life of the scheme, the amortisation shall take into account the number of outstanding units and the aggregate amount during the relevant periods. (c)<sup>118</sup> In the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 in section 78, in Tenth Schedule ,clause (c) shall be omitted as follows :- "(c) For open-ended schemes floated on a load' basis, the initial issue expenses may be amortised over a period not exceeding five years. Issue expenses incurred during the life of an open-ended schemes shall not be amortised." be substituted by the Securities and Exchange Board of India Act,1992 (15 of 1992). [ \* \* \* ] (d) In case of closed-ended and open-ended schemes floated on a load' basis, the unamortised portion of the expenses shall be included in the calculation of the NAV. However, such portion shall not be included in the NAV for the purposes of determining the asset management company's investment management and advisory fees or for determining the limitation of expenses under regulation 51 of these' regulations. (e) For schemes floated on a 'no-load' basis, the asset management company may levy an additional management fee not exceeding 1% of the NAV. The asset management company may be entitled to levy a contingent deferred sales charge for redemption during the first four years after purchase, not exceeding 4% of the redemption proceeds in the first year, 3% in the second year, 2% in the third year and 1% in the fourth year. (f) All subsequent distribution charges must in the case of load schemes shall be borne by the scheme and in the case of no-load schemes borne by the asset management company.

#### SCHEDULE 11

#### ELEVENTH SCHEDULE

Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 [Regulations 54,56(2)] Annual Report 1. Annual Report The annual report shall contain- (i) Report of the Board of Trustees on the operations of the various schemes of the fund and the fund as a whole during the year and the future outlook of the fund; (ii) Balance Sheet and Revenue Account in accordance with paras 2,3 and 4, respectively of this Schedule; (iii) Auditor's Report in accordance with the paragraph 5 of this Schedule; (iv) Brief statement of the Board of Trustees on the following aspects, namely :- (a) Liabilities and responsibilities of the Trustees and the Settlor; (b) Investment objective of each scheme: (c) Basis and policy of investment underlying the scheme; (d) If the scheme permits investment partly or

wholly in shares, bonds, debentures and other scrips or securities whose value can fluctuate, a statement on the following lines: 'The price and redemption value of the units, and income from them, can go up as well as down with the fluctuations in the market value of its underlying investments;' (e) Comments of the Trustees on the performance of the scheme, with full justification. (v) Statement giving relevant perspective historical 'per unit' statistics in accordance with paragraph 6 of this Schedule: (vi) Statement on the following lines : "On written request, present and prospective unit holder/investors can obtain copy of the trust deed, the annual report <sup>119</sup>[57]Inserted vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L] ["at a price"]and the text of the relevant scheme." 2. Following accounting policies shall be followed by Mutual Funds for the preparation of accounts: The realised gains or losses on sale or redemption of investment, as well as unrealised appreciation or depreciation shall be recognised in all financial statements. For the purpose of all financial statements, all investments shall be marked to market and investments shall be carried out in the balance sheet at market value. However, till necessary guidance notes are issued by the Institute of Chartered Accountants of India to their members, in the above matter, investments may be continued to be valued at cost, with the market value shown separately and the reconciliation statement for the changes in investments valued in the two different ways shall be provided. Where the financial statement are prepared on a marked to market basis, there need not be a separate provision for depreciation. Since unrealised gain arising out of appreciation on investments cannot be distributed, provision has to be made for its exclusion and for calculating distributable income. ii Non-traded investments shall be valued in good faith in accordance with the norms specified in Seventh Schedule. iii For quoted shares, the dividend income earned by a scheme shall be recognised, not. on the date the dividend is declared, but on the date the share is quoted on an ex-dividend basis. For investments in shares which are not quoted on the stock exchanges, the dividend income must be recognised on the date of declaration. In respect of all interest-bearing investments, income shall be accrued on a day to day basis as it is earned. Therefore when such investments are purchased, interest paid for the period from the last interest due date upto the date of purchase, shall not be treated as a cost of purchase, but shall be treated to Interest Recoverable Account. Similarly, interest received at the time of sale for the period from the last interest due date upto the date of sale must not be treated as an addition to sale value but shall be credited to Interest Recoverable Account. In determining the holding cost of investments and the gains or loss on sale of investments, the 'average cost" method shall be followed. Transactions for purchase or sale of investments shall be recognised as of the trade date and not as of the settlement date, so that the effect of all investments traded during a financial year are recorded and reflected in the financial statements for that year. Where investment transactions take place outside the stock market, for example, acquisitions through private placement or purchases or sales through private treaty, the transaction shall be recorded, in the event of a purchase, as of the date on which the scheme obtains in enforceable obligation to pay the price or, in the event of a sale, when the scheme obtains an enforceable right to collect the proceeds of sale or an enforceable obligation to deliver the instruments sold. Bonus

shares to which the scheme becomes entitled shall be recognised only when the original shares on which the bonus entitlement accrues are traded on the stock exchange on an ex-bonus basis. Similarly, rights entitlements shall be recognised only when the original shares on which the right entitlement accrues are traded on the stock exchange on an ex-rights basis. Where income receivable on investments has been accrued and has not been received for a period of 12 months beyond the due date, provision shall be made by debit to the revenue account for the income so accrued and no further accrual of income should be made in respect of such investment. When the units of an open-ended scheme are sold, the difference between the sale price and the face value of the unit, if positive, shall be credited to Reserves and if negative is debited to reserve, the face value being credited to Capital Account. Similarly, when units of an open-ended scheme are repurchased, the difference between the purchase price and face value of the unit, if positive should be debited to Reserves and, if negative, should be credited to reserves, the face value being debited to the capital account. (a) In the case of an open-ended scheme, when units are sold an appropriate part of the sale proceeds shall be credited to an Equalisation Account and when units are repurchased an appropriate amount shall be debited to Equalisation Account. The net balance on this account should be credited or debited to the Revenue Account. The balance on the Equalisation Account debited or credited to the Revenue Account shall not decrease or increase the net income of the fund but is only an adjustment to the distributable surplus. It shall, therefore, be reflected in the Revenue Account only after the net income of the fund is determined. (b) The Trustees of the Board of the Trustee Company may, if necessary, transfer a portion of the distributable profits to a dividend equalisation reserve. Such a transfer would be independent of the requirement to operate an Equalisation Account as provided in (x)(a). In a close-ended scheme which provide to the unitholders the option for an early redemption or repurchase their own units, the par value of the unit shall be <sup>120</sup>[58]Substituted for "credited", vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L] ["debited"] to Capital Account and the difference between the purchase price and the par value, if positive, should be debited to reserves and, if negative, should be credited to reserves. A proportionate part of the unamortized initial issue expenses shall also be transferred to the reserves so that the balance carried forward on that account is proportional to the number of units remaining outstanding. The cost of investments acquired or purchased shall include brokerage, stamp charges and any charge customarily included in the broker's bought note. In respect of privately placed debt instruments any front-end discount offered shall be reduced from the cost of the investment. xiii. Underwriting commission shall be recognised as revenue only when there is no devolvement on the scheme. Where there is devolvement on the scheme, the full underwriting commission received and not merely the portion applicable to the devolvement shall be reduced from the cost of the investment. 3. Contents of Balance Sheet (i) The Balance Sheet shall give schemewise particulars of its assets and liabilities. These particulars shall contain information enumerated in Annexures 1 A and 1B hereto. It shall also disclose, inter alia, accounting policies relating to valuation of investments and other important areas. (ii) If investments are carried at costs or written down cost, their aggregate market value shall be stated

separately in respect of each type of investment, such as equity shares, preference shares, convertible debentures listed on recognised stock exchange, non-convertible debentures or bonds further differentiating between those listed on recognised stock exchange and those privately placed. <sup>121</sup> Omitted "sub-clause (iii)", in clause 3 of Eleventh Schedule. [\*\*\*] <sup>122</sup> Sub-clause (iii) inserted in clause 3 of Eleventh Schedule, by the "Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2001". (iii) The Balance Sheet shall disclose under each type of investment(s) the aggregate carrying value and market value of non-performing investments. An investment shall be regarded as non-performing if it has provided no returns in the form of dividend or interest for a period specified in the guidelines issued by the Board. (iv) The Balance Sheet shall indicate the extent of provision made in the Revenue Account for the depreciation/loss in the value of non-performing investments. However, if the investments are valued at marked to market, provisions for depreciation shall not be necessary. (v) The Balance Sheet shall disclose the per-unit net-asset value (NAV) as at the end of the accounting year. (vi) As in case of companies, the Balance Sheet shall give against each item, the corresponding figures as at the end of the preceding accounting year. (vii) The notes to the balance sheet should disclose the following information regarding investments:- (a) all investments shall be grouped under the major classification given in the balance sheet; (b) under each major classification, the total value of investments falling under each major industry group (which constitutes not less than 5% of the total investment in the major classification) shall be disclosed together with the percentage thereof in relation to the total investment within the classification; <sup>123</sup>[59]Substituted for "(c) where an individual investment constitutes more than 2% of the total investments in the major classification, individual disclosure shall be made of such investment; ", vide " SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996" Dt.12th January, 1998 Published in Securities and Exchange Board of India, Noti. No. S.O. 32(E), dated January 12, 1998, published in the Gazette of India, Extra., Part II, Section 3(ii), dated 12th January, 1998, pp. 11-18, No. 19 [SEBI/LE/2330/98] [L] <sup>124</sup> Omitted for "full schemewise portfolio of investments of a mutual fund : Provided that a mutual fund may publish particulars of its full portfolio in the advertisements of abridged annual report or full annual reports in newspapers.";] by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2000 ["(c) Omitted (d) a full list of investments of the scheme shall be made available for inspection with the Asset Management Company; (e) the basis on which management fees have been paid to the Asset Management Company and the computation thereof: (f) if brokerage, custodial fees or any other payment for services are paid to or payable to any entity in which the Asset Management Company or its major shareholders have a substantial interest (being not less than 10% of the equity capital), the amounts debited to the revenue account or amounts treated 'as cos' of investments in respect of such services shall be separately disclosed together with details of the interest of the Asset Management Company or its major shareholders; (g) aggregate value of purchases and sales of investments during the year and expressed as a percentage of average weekly net asset value; (h) where the non traded investments which have been valued 'in good faith' exceed 5% of the NAV at the end of the year, the aggregate value of such investments: and (i) movement in unit capital should be stated. An example of the manner in which the movement in unit capital may be disclosed is given below :- No. of units (Rs. in lakhs) Balance as on 1st

April, 1994 1250,00,000 12500.00 Units sold during the year 127,50,000  
1275.00 Units repurchased during the year (15,40,000) (154.00)  
1362,10,000 1362 100 (j) if the investments are marked to market, the  
total income of the scheme shall include unrealised depreciation or  
appreciation on investment. There should be disclosure and unrealised  
appreciation deducted before arriving at the distributable income in the  
following manner, e.g. Rs. in lakh Rs. in lakh Net income as per Revenue  
Account 100 Add: Balance of undistributed income as at 1st April, 1994  
brought forward 20 120 Less : Unrealised appreciation on investments As  
on 31st March, 1995 30 As on 1st April, 1994 15 (15) 105 Less :  
Distributed to unit holders 80 Transfer to reserve 5 (85) 20 (viii)  
Provisions for doubtful deposits, doubtful debts and for doubtful  
outstandings and accrued income shall not be included under provisions  
on the liability side of the balance sheet, but shall be shown as a  
deduction from the aggregate value of it relevant asset. (ix) Disclosure  
shall be made of all contingent liabilities showing separately under-  
writing commitments, uncalled liability on partly paid shares and other  
commit-  
ments with specifying details. 4. Contents of Revenue Account (i)  
The Revenue Account shall give schemewise particulars of the income,  
expenditure and surplus of the mutual fund. These particulars shall contain  
information enumerated in Annexure 2 of this Schedule. (ii) If profit on  
sale of investments shown in the Revenue Account includes profit/loss on  
inter-scheme transfer of investments within the same mutual fund the  
aggregate of such profit recognised as realised, shall be disclosed  
separately without being clubbed with the profit/loss on sale of  
investments to third parties. (iii) Unprovided depreciation in value of  
investments representing the difference between their aggregate market  
value and their carrying cost shall be disclosed by way of a note forming  
part of the Revenue Account. Conversely, unrealised profit on investment  
representing the difference between their aggregate market value and  
carrying cost, shall be disclosed by way of note to accounts. The Revenue  
Account shall indicate the appropriation of surplus by way of transfer to  
reserves and dividend distributed. However, if investments are marked to  
market, depreciation may not be provided. (iv) The Revenue Account shall  
indicate the appropriation of surplus by way of transfer to reserves and  
dividend distributed. (v) The following disclosures shall also be made in  
the revenue accounts : (a) provision for aggregate value of doubtful  
deposits, debts and outstanding and accrued income; (b) profit or loss in  
sale and redemption of investment may be shown on a net basis; (c)  
custodian and registrar fees; (d) total income and expenditure expressed  
as a percentage of average net assets, calculated on a weekly basis. 5.  
Auditor's Report (i) All mutual funds shall be required to get their accounts  
audited in terms of a provision to that effect in their trust deeds. The  
Auditor's Report shall form a part of the Annual Report. It should  
accompany the Abridged Balance Sheet and Revenue Account. The auditor  
shall report to the Board of Trustees and not to the unit holders. (ii) The  
auditor shall state whether: 1. he has obtained all information and  
explanations which, to the best of his knowledge and belief, were  
necessary for the purpose of his audit, 2. the Balance Sheet and the  
Revenue Account are in agreement with the books of account of the fund.  
(iii) The auditor shall give his opinion as to whether : 1. the Balance Sheet  
gives a true and fair view of the schemewise state of affairs of the fund as  
at the balance sheet date, and 2. the Revenue Account gives a true and fair  
view of the schemewise surplus/deficit of the fund for the year/period  
ended at the balance sheet date. 6. Perspective Historical per Unit  
Statistics 1. This statement shall disclose the following schemewise per

unit statistics for the past 3 years: (a) net assets value, per unit ; (b) gross income per-unit broken up into the following components : (i) income other than profit on sale of investment, per unit; ( ii) income from profit on inter scheme sales/transfer of investment, per unit; (iii) income from profit on sale of investment to third party, per unit: (iv) transfer to revenue account from past year's reserve, per unit. (c) aggregate of expenses, write off, amortisation and charges, per unit; (d) net income, per unit; (e) unrealised appreciation/depreciation in value of investments, per unit; (f) if the units are traded or repurchased/resold, the highest and the lowest prices per unit during the year and the price-earning ratio. (g) Per unit, ratio of expenses to average net assets by percentage; (h) Per unit, ratio of gross income to average net assets by percentage (excluding transfer to revenue account from past year's reserve but including unrealised appreciation on investments) (i) per unit NAV

**SCHEDULE 12**

**TWELFTH SCHEDULE**

125 Schedule Twelfth , shall be substituted by Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2001. Noti. No. F.No.SEBI/LEI/32858/2001, dated 23/7/2001, Gas. of India, Exty., Pt.II-Sec. 3(ii), No. 501, dt. 23/7/2001, page.5. SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996 (Regulation 59] HALF YEARLY FINANCIAL RESULTS FOR THE PERIOD ENDED

Sl. No.	Particulars	Scheme Names I,II ,III -
1	2	3
1.1	Unit Capital at the beginning of the half-year period [Rs.in Crores]	
1.2	Unit Capital at the end of the period [Rs. in Crores]	
2	Reserves & Surplus [Ra. in Crores]	
3.1	Total Net Assets at the beginning of the half-year period [Rs.in Crores]	
3.2	Total Net Assets at the end of the period [Rs. in Crores]	
4.1	NAV at the beginning of the half-year period [Rs.]	
4.2	NAV at the end of the period [Rs.]	
4.3	Dividend paid per unit during the half-year [Rs.]	
	Income :-	
5.1	Dividend [Rs. in Crores]	
5.2	Interest [Rs. in Crores]	
5.3	Profit/(Loss) on sale/redemption of investments (other than inter-scheme transfer/sale) [Rs. in Crores]	
5.4	Profit/(Loss) on inter-scheme transfer/sale of investments [Rs. in Crores]	
5.5	Other Income (indicating nature) [Ra. in Crores]	
5.6	Total Income (5.1 to 5.5) [Rs. in Crores]	

	Total Income (net of GST) [Rs. in Crores]	
	Expenses :-	
6.1	Management Fees [Rs. in Crores]	
6.2	Trustee Fees [Rs. in Crores]	
6.3	Total Recurring Expenses (including 6.1 and 6.2) [Rs. in Crores]	
6.4	Percentage of Management Fees to daily/weekly average net assets [%]	
6.5	Total Recurring expenses as a percentage of daily/weekly average net assets[%]	
7.1	Returns during the half-year* [(+) (-)]	
7.2	Compounded Annualised yield in case of schemes in existence for more than 1 Year**	
	Last 1 year [%]	
	Last 3 years [%]	
	Last 5 years [%]	
	Since launch of the scheme (date of launch to be given)[%]	
8.	Provision for doubtful Income/Debts [Rs. in Crores]	
9,	Payments to associate/group companies (if applicable) [Rs. in Crores]	
10.	Investments made in associate/group companies (if applicable) [Rs. in Crores]	