

Section 1: Table -1- Eligibility criteria for Sponsor of a MF

Section 1: Table -1- Eligibility criteria for Sponsor of a MF			
Column A			
I. Eligibility criteria for Sponsor of a MF			
Proposal in the consultation paper			
I. The eligibility criteria for a sponsor to get registration under the main eligibility route under MF Lite framework may be as under:			
<p>Requirement for Sponsor</p> <p>a. Positive Net Worth (N/W) in all of the immediately preceding 5 years;</p> <p>b. Positive liquid N/W to be more than the proposed capital contribution of the sponsor in the AMC;</p> <p>c. In case of change in control of the existing AMC due to acquisition of shares, the positive liquid N/W of the sponsor OR funds tied up by the sponsor; shall be to the extent of aggregate par value or market value of the shares proposed to be acquired, whichever is higher;</p> <p>d. Net profit after tax in 3 out of the immediately preceding 5 years including the 5th year and average profit in the last 5 years to be at least INR 5 Cr.</p> <p>Requirement for AMC</p> <p>a. Minimum N/W to be INR 35 Cr.</p> <p>b. The AMC may bring the N/W down to INR 25 Cr. in case it has profit for 5 consecutive years.</p> <p>c. Minimum N/W to be deployed in liquid assets.</p> <p>d. Sponsor to hold minimum 40% of the AMC N/W.</p> <p>e. Sponsor to be responsible for maintenance of minimum positive liquid N/W of the AMC.</p>	<p>Summary of Public Comments</p> <p>While majority of the comments received are in agreement with the aforesaid proposals, some have commented as under:</p> <p>a. As the role of a CRO is to independently assess the risks to the business, CCO or any business head cannot be termed as a CRO. Further, the role of CRO may be relaxed in the main route also.</p> <p>b. The requirement of experience in financial services may be reinstated with a minimum experience say, one year.</p> <p>c. The sponsor may be allowed to disassociate itself from AMC/MF after a period of 3 years instead of 5 years.</p>	<p>Consideration of issue</p> <p>a. As the risks associated with passively managed schemes are considerably lower than the actively managed schemes, the role of Chief Risk Officer (CRO) in such schemes is also limited from the point of view of market risk and investment risk. Therefore, the AMCs may be permitted to appoint a separate CRO on a voluntary basis, else the Chief Compliance Officer (CCO) may also act as the CRO of the AMC, subject to his eligibility and experience in area of risk management.</p> <p>b. The role of CRO is limited in case of passively managed mutual fund schemes. Therefore, the CCO may also act as the CRO of the AMC irrespective of whether the sponsor has been registered under the main route or the alternate route.</p> <p>c. Unlike active MF schemes, passive schemes are rule based by nature and therefore, financial experience may not be relevant under the main eligibility route of MF Lite framework.</p> <p>d. As per the existing regulatory requirements, any sponsor proposing to disassociate should have been a sponsor of the concerned Mutual Fund for at least 5 years before the proposed date of disassociation. The requirement or existence of the sponsor for minimum of 5 years prior to its disassociation has been put in place so as to ensure that the AMC is adequately mature to stand on its own during the initial years in the presence of the sponsor. Further, as the MF Lite framework are proposed to be applicable only for passively managed MF schemes, it is paramount to ensure entry of only serious players as sponsors under the MF Lite regime and lock in of their sponsorship in the respective AMC for a minimum duration of 5 years. In view of the above, the current requirement of presence of the sponsor for a minimum 5 years prior to its disassociation may be retained.</p>	<p>Proposal for Board consideration</p> <p>The proposal at Column A may be accepted with the following modification:</p> <p>In cases of both the main and alternate eligibility routes, AMCs may appoint a separate CRO on a voluntary basis, otherwise the CCO may also act as the CRO of the AMC, subject to his/her eligibility and experience in risk management.</p> <p>The proposal may be implemented through amendment to SEBI (Mutual Fund) Regulations, 1996 and operational modalities through issuance of circular.</p>
II. The eligibility criteria for a sponsor to get registration under the alternate eligibility route for MF Lite may be as under:			
In case any of the criteria is not met by the sponsor under the main eligibility route as mentioned at section 1 (I) above, the sponsor may apply for registration under the alternative eligibility criteria, subject to the following:			
Requirement for Sponsor			
<p>a. The sponsor shall adequately capitalize the AMC such that the N/W of the AMC is at least INR 75 Cr.;</p> <p>b. Initial shareholding of the sponsor equivalent to INR 75 Cr. shall be locked-in for a period of 3 years;</p> <p>c. The sponsor shall appoint experienced personnel in AMC such that the combined experience of Chief Executive Officer (CEO), Chief Operating Officer (COO), Chief Compliance Officer (CCO) and Chief Investment Officer (CIO) shall be at least 20 years. Further, AMCs may appoint a separate Chief Risk Officer (CRO) on a voluntary basis, otherwise the CCO may also act as the CRO of the AMC, subject to his/her eligibility and experience in risk management;</p> <p>d. In case of acquisition of an existing AMC,</p> <p>i. the sponsor shall have minimum positive liquid N/W equal to incremental capitalization required to ensure minimum capitalization of the AMC; and</p> <p>ii. the positive liquid N/W of the sponsor OR the funds tied up by the sponsor; are to the extent of aggregate par value or market value of the shares proposed to be acquired, whichever is higher; and</p> <p>iii. The shareholding equivalent to at least INR 75 Cr. shall be locked in for 3 years in case of acquisition.</p> <p>e. In case of pooled investment vehicles sponsoring a MF, management of drawn down capital by applicant Private Equity (PE) or its manager may be relaxed to INR 2500 Cr. keeping all other conditions intact.</p>			
Requirement for AMC			
<p>a. Minimum N/W of the AMC shall be INR 50 Cr.</p> <p>b. Minimum N/W of the AMC shall be deployed in liquid assets.</p> <p>c. The AMC may bring the N/W down to INR 25 Cr. in case it has profit for 5 consecutive years.</p> <p>d. The sponsor shall hold minimum 40% of the AMC N/W.</p> <p>e. Sponsor shall be responsible for maintenance of minimum positive liquid N/W of the AMC.</p>			
III. The extant provisions for becoming a self-sponsored AMC may be applicable under the MF Lite framework also.			
IV. AMCs shall abide by the N/W requirement as per the extant MF Regulations (i.e. as applicable for MFs with active schemes), as and when the total AUM under the MF Lite framework, exceeds INR 1 Lakh Cr. In such instances, until the AMC meets the N/W requirement, it may not be allowed to launch any new scheme or take further subscriptions to existing schemes.			

Section 1: Table 2- Shareholding and governance in Mutual Funds			
Column A			
2. Shareholding and governance in Mutual Funds			
Proposal in the consultation paper (Column A)	Summary of Public Comments	Consideration of issue	Proposal for Board consideration
<p>a. New players desirous of launching only passive MF schemes may register under the proposed MF Lite framework.</p> <p>b. Existing MFs having both active and passive schemes, may hive off respective passive schemes, if they so desire, to a different group entity, thereby resulting in management of active and passive schemes by separate AMC's but under a common sponsor.</p> <ul style="list-style-type: none"> In such cases, the sponsor may be required to completely segregate and ring-fence its resources including infrastructure, technology and staff etc. for passive MF management from the active MF management. Further, various regulatory requirements including continuous networth requirement may be made separately applicable to both AMC's (i.e. for active and passive schemes). In such cases, the new entity, to which the passive schemes have been hived off, may be allowed to carry the past track records of such schemes. A sponsor may be permitted to obtain up to 2 registrations i.e. one each for MF- active and MF- Lite. <p>c. In case, an existing sponsor hives off passive schemes from its existing AMC to a new AMC within the same group, then the existing AMC may thereafter not be allowed to launch any passive scheme that are permitted under the proposed MF Lite framework.</p> <ul style="list-style-type: none"> In such cases, an existing share holder holding 10% or more of the share-holding or voting rights in the existing AMC of an MF may be allowed to hold 10% or more of the share-holding or voting rights in the new AMC (under MF Lite) also. <p>d. The hive-off of the passive business by an existing AMC may be made subject to the AMC (continuing with only active schemes) providing an exit option to the existing investors of the business being hived off.</p>	<p>While majority of comments received are in agreement with the aforesaid proposals, there are few who have represented as under:</p> <p>a. AMC's may be permitted to share certain areas like support function, sales and marketing, HR, administration, till the MF Lite hived off division reaches Rs. 1 Lakh crore size (i.e. when the higher net worth and other criteria get applicable).</p> <p>b. An existing SEBI-registered Mutual Fund house that has obtained a full-scope license to potentially offer all types of schemes (active + passive both), but in practice only manages passive schemes, may be permitted to register under MF-lite framework.</p> <p>c. If an existing AMC having multiple sponsors (Co-Sponsors) hives off its passive schemes to an MF-lite AMC, the active-only AMC may not be required to mirror the shareholding levels and patterns (including the same number of sponsors or their shareholding thereof) in the MF Lite AMC also, and 1 common sponsor may be considered to be sufficient to start an MF Lite AMC.</p>	<p>a. If an AMC decides to hive off its existing passive business to a different AMC under a common sponsor, this will give rise to creation of 2 different AMC's/ companies. Therefore, it would be appropriate to completely segregate and ring-fence its resources including infrastructure, technology and staff etc. for passive MF management from the active MF management to address any conflicts of interests and for smooth conduct of business. However, certain other areas like sales, marketing, Human Resources (HR) and administration may be allowed to be outsourced by the new AMC from the existing AMC with an outsourcing agreement in place, with arm's length, till the MF Lite registered AMC reaches Rs. 1 Lakh crore AUM size.</p> <p>b. An AMC registered under the current MF Regulation may also be provided with an option to get themselves registered under the MF Lite framework and surrender the license of a full- fledged AMC subject to the condition that the said AMC manages only passive schemes based on such underlying indices that would be permitted under MF Lite framework.</p> <p>c. In case there are co-sponsors in an existing AMC and the AMC decides to hive off its passive business to a different AMC with 1 common sponsor instead of all co-sponsors, that would be a business / commercial decision between the AMC and the so-sponsors and the same may be treated as hiving off respective passive schemes to an unrelated entity as mentioned at paragraph 2.2.3 of the consultation paper.</p>	<p>The proposals at Column A may be accepted with the following modifications:</p> <p>a. In case the existing MFs having both active and passive schemes hive off respective passive schemes, if they so desire, to a different group entity, thereby resulting in management of active and passive schemes by separate AMC's but under a common sponsor, the sponsor may be required to completely segregate and ring-fence its resources including infrastructure, technology and staff etc. for passive MF management from the active MF management. However, certain other support functions namely, sales and marketing, Human Resources (HR) and administration may be allowed to be outsourced by the MF Lite AMC.</p> <p>b. An AMC registered under the current MF Regulation may also be provided an option to get itself registered under the MF Lite framework and surrender the license of a full- fledged AMC, subject to the condition that the said AMC only manages passive schemes based only on underlying indices that are proposed to be permitted under MF Lite framework.</p> <p>The proposal may be implemented through amendment to SEBI (Mutual Fund) Regulations, 1996 and operational modalities through issuance of circular.</p>

Section 1: Table 3- Roles and responsibilities of trustees

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Column A			
3. Roles and responsibilities of trustees			
Proposal in the consultation paper (Column A)	Summary of Public Comments	Consideration of issue	Proposal for Board consideration
<p>a. The existing roles and responsibilities of trustees of a Mutual Fund may be relaxed subject to those pertaining to related party transactions, conflicts of interest, undue influence of sponsor, mis-selling, misconduct including market abuse/ misuse of information including front running etc. retained as per the existing requirements.</p> <p>b. Further, the relaxed provisions for roles and responsibilities of a trustee of MF Lite, may be as under:</p> <p>i. The trustee of an MF Lite shall be any entity registered under the SEBI (Debenture Trustees) Regulations, 1993 and shall satisfy the specified fit and proper criteria. At any given point of time, a debenture trustee may be appointed as trustee of more than one MF registered under the MF Lite framework. However, to avoid any possible conflicts of interest, the trustee of any MF Lite shall be an independent entity and not an associate of the sponsor(s) or manager of the concerned MF Lite.</p> <p>ii. However, in case, an existing sponsor hives off passive schemes from its existing AMC to a new AMC within the same group, the existing trustees may be appointed as trustees of the MF Lite also, if so desired by the MF Lite AMC.</p> <p>iii. To facilitate the above proposals at paras 3 (b)(i) and 3 (b)(ii), the extant restriction under Regulation 7B(2) of the MF Regulations on any shareholder to hold 10% or more in trustees of more than one Mutual Fund, may be relaxed.</p> <p>iv. The trustees shall be the custodian of funds and property of the respective schemes and shall hold the same in trust for the benefit of unitholder.</p> <p>v. The trustee shall have satisfactory wherewithal with respect to infrastructure, personnel, systems etc.</p> <p>vi. The provisions in the MF Regulations shall only lay down the principle regarding fiduciary responsibility of a trustee to ensure that the activity of MF Lite is being carried out in accordance with the applicable regulations and in the interest of the unitholders. The specific rights and responsibilities for a trustee of MF Lite and manner of oversight over AMC's activities shall be left to be mutually decided by trustee and AMCs.</p>	<p>While the public comments received are broadly in agreement, some have expressed that with reduced oversight by independent trustees and increased control by the Sponsor-appointed AMC Board, there may be heightened risks of conflicts of interest and governance issues. The AMC's Board, appointed by the Sponsor, might prioritize the Sponsor's interests over those of the unit holders.</p>	<p>As the passive schemes are rule based by nature, issues relating to conflicts of interest and governance issues would be minimal in cases of AMCs running only passive schemes. In addition, it is being proposed in the MF Lite framework that the roles and responsibilities of trustees pertaining to related party transactions, conflicts of interest, undue influence of sponsor, mis-selling, misconduct including market abuse/ misuse of information including front running etc. shall be retained as per the extant MF Regulations.</p>	<p>The proposals at Column A may be accepted and may be implemented through amendment to SEBI (Mutual Fund) Regulations, 1996 and operational modalities through issuance of circular.</p>

<p>vii. Currently, the contents of trust deed are specified in Schedule 3 of MF Regulations. However, in case of the proposed MF Lite framework, such regulatory specification may not be necessary. AMFI in consultation with SEBI may prescribe a standard trust deed in line with roles and responsibilities of trustees elaborated in this proposal (table-3) and any AMC registered under MF Lite may be mandated to sign the trust deed to commence the business of managing passive funds.</p> <p>viii. The trustee shall oversee activities of the AMC in the interest of the unitholders and obtain periodic reports on its activities and status of compliance with applicable regulations.</p> <p>ix. The trustees shall have the right to seek information from the AMCs as per their trust deeds.</p>		
<p>x. The trustee shall enter in to an investment management agreement with the AMC.</p> <p>xi. Where the trustees have a reason to believe that the conduct of the business of the MF is not in accordance with the MF Regulations, they shall have the right to take remedial steps, as are necessary.</p> <p>xii. The trustees shall periodically review the status of unit holders' complaints and their redressal undertaken by the AMC.</p> <p>xiii. The trustee shall have the right to initiate winding up of any scheme.</p> <p>xiv. The trustees shall not be held liable for acts done in good faith if they have exercised adequate due diligence and acted as per the terms of the trust deed.</p> <p>xv. The trustees shall immediately inform SEBI in case any act which is detrimental to the interest of the unitholders is noted.</p> <p>xvi. The trustees may not be mandated to constitute an Audit Committee and a Risk Management Committee.</p> <p>xvii. The trustees need not be required to employ any resource person/dedicated officer.</p> <p>xviii. The Board of AMCs shall be appointed by the Sponsor, instead of trustee.</p> <p>xix. The trustee shall provide consent in case of change in control of AMC.</p>		
<p>c. In case an existing AMC doesn't hive off its passive schemes and continues to manage the passive schemes under the current MF Regulations, the reduced roles and responsibilities of trustees as mentioned in this proposal (table-3) shall also be applicable to the existing trustees of such AMC but only pertaining to the passive funds allowed under the proposed MF lite framework.</p>		

Section 1: Table 4- Roles and responsibilities of Board of AMCs			
Column A			
4. Roles and responsibilities of Board of AMCs			
Proposal in the consultation paper (Column A)	Summary of Public Comments	Consideration of issue	Proposal for Board consideration
<p>a. While trustees of MF Lite shall have overarching role of protection of the interest of investors, the Board of AMCs shall have the primary accountability for acting in the interests of the investors, which may inter alia include the following:</p> <p>i. The following core responsibilities presently required to be independently undertaken by the trustees, may be shifted to the Board of AMCs:</p> <ul style="list-style-type: none"> • Ensuring the fairness of fees and expenses charged by the AMCs. • Maintaining the tracking error and tracking difference within the regulatory limit. <p>W.r.t the other core responsibilities relating to misconduct including market abuse/ misuse by information including front running, conflict of interest, related party transaction, mis-selling etc., as mentioned at table 3, the Board of AMC may also be responsible along with the trustees.</p> <p>ii. Further, certain common responsibilities currently entrusted upon both trustees and AMCs under the extant MF Regulations, such as the following, may be applicable only to the Board of AMCs of MF Lite.</p> <ul style="list-style-type: none"> • Periodic reporting to SEBI. • Responsibility for the overall risk management of all scheme specific and AMC specific risks, including setting up of a Risk Management Committee. • Responsibility of filing of offer documents and obtaining regulatory approvals. • Ensuring adequacy of infrastructure and sufficient key personnel with adequate experience and qualification to undertake management of assets at all times. • Appointment of key personnel including the chief investment officer, registrars and share transfer agents, compliance officer, auditor, custodian etc. and empanelment of brokers. • Responsibility for valuation of investments in accordance with the specified requirements. • Responsibility of constitution of Unit Holders Protection Committee (UHPC). 	<p>a. While comments received are broadly in agreement with the proposals, some have commented that trustees should continue to be responsible for all core responsibilities under MF Lite regime also.</p> <p>b. It is stated that the requirement for having a separate UHPC may be relaxed and AMC Board may assume such responsibility</p>	<p>a. As the trustee for MF Lite is proposed to be an independent entity with a limited role of ensuring compliance with various regulatory requirements and protection of investors' interests, certain core responsibilities identified to be independently evaluated by trustees under the extant requirements may be shifted to the Board of AMCs of MF Lite.</p> <p>b. AMCs are mandated to constitute an UHPC in order to have an independent review mechanism for the decisions of AMC from the perspective of the unit holders' interest, across all products and services. Therefore, UHPC is required to be an independent committee and the AMC Board under MF Lite assuming such responsibility, may not suffice.</p>	<p>The proposals at Column A may be accepted and may be implemented through amendment to SEBI (Mutual Fund) Regulations, 1996 and operational modalities through issuance of circular.</p>

iii. Apart from the above certain reporting presently required to be made to trustees by AMC may continue for MF Lite also for information of the trustees. In case AMC fails to timely submit the same to trustee, the trustee shall intimate regarding the same to SEBI. Such information inter alia may include the following:

- Information sharing of TE (In case of equity) and TD (in case of debt) in case it exceeds specified limits.
- Submission of declaration on votes casted by AMC that votes are cast in best interest of investors.
- Sharing of information regarding breakage of seal and/or breakdown of the time stamping process.
- Sharing of information of change in TER.
- Information on declaration of record date, determination of quantum of dividend to be paid. Ratification of actual dividend paid.

In case the trustees find any adverse observations with respect to the aforesaid reporting, the trustee shall intimate regarding the same to SEBI.

iv. As regards the role of trustees pertaining to related party transactions, conflicts of interest, undue influence of sponsor, mis selling, misconduct including market abuse/ misuse of information; including front running etc. which is proposed to be retained as per the extant framework, the trustees shall seek information from AMCs pertaining to the aforesaid issues. In case of any adverse observations with respect to the same, the trustee shall intimate SEBI regarding the same.

v. Also, the trustees are presently required to grant following approvals, which may be accorded by the Board of AMC under the MF Lite framework:

- Approval for parking of funds pending deployment, in case it exceeds specified limit.
- Approval for a detailed written policy on creation of segregated portfolio (in case of debt oriented mutual funds) and necessary monitoring of recovery of investment proceeds.

Section 1: Table 5- Restrictions on business activities of AMCs

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Column A			
5. Restrictions on business activities of AMCs			
Proposal in the consultation paper (Column A)	Summary of Public Comments	Consideration of issue	Proposal for Board consideration
The entities registered under MF Lite may not be allowed to do any business activity other than managing passive MF schemes.	<p>The public comments received on this proposal are mixed in nature. Comments which are in partial agreement/ disagreement have provided the following comments:</p> <p>a. MF-Lite AMCs should be allowed to acquire desired RIA/IA/PMS license for the advisory on passive funds only and managing/advising PMS/model portfolio's based on passive funds only.</p> <p>b. MF Lite AMCs should be allowed to provide management and advisory services for pooled assets such as offshore funds, insurance funds, pension funds, provident funds, and foreign portfolio investors, particularly in the context of passive investments.</p>	<p>a. As the regulatory requirements (including lower N/W requirement) for the entities registered under MF Lite framework are proposed to be lighter as compared to the same for the existing AMCs, the arena of activities to be allowed under MF Lite framework also needs to be considered carefully. Therefore, AMCs registered under the MF Lite framework may not be allowed to carry out activities pertaining to Research Analysis and Portfolio Management in the current phase of implementation.</p> <p>b. However, AMCs managing only passive schemes may be permitted to provide advisory services to pooled vehicles only in the context of passive investments subject to specified conditions.</p>	<p>AMCs managing only passive schemes may be permitted to provide advisory services to pooled vehicles only in the context of passive investments</p> <p>Provided that the asset management company may itself or through its subsidiaries undertake such activities, as permitted under clause (b), if, -</p> <p>(i) it ensures that there is no material conflict of interest across different activities;</p> <p>(ii) the absence of conflict of interest shall be disclosed to the trustees and unit holders in scheme information document and statement of additional information.</p> <p>(iii) there are unavoidable conflict of interest situations, it shall satisfy itself that disclosures are made of source of conflict, potential 'material risk or damage' to investor interests and detailed parameters for the same;</p> <p>(iv) it ensures independence to key personnel handling the relevant conflict of interest is provided through removal of direct link between remuneration to relevant asset management company personnel and revenues generated by that activity:</p> <p>The proposal may be implemented through amendment to SEBI (Mutual Fund) Regulations, 1996.</p>

<i>Section 1: Table 6- Investment Management Agreement</i>			
Column A			
6. Investment Management Agreement			
Proposal in the consulation paper (Column A)	Summary of Public Commnets	Consideration of issue	Proposal for Board consideration
The details of the investment management agreement in respect of MF Lite framework, shall be specified by AMFI, in consultation with SEBI.	The public comments received are broadly in agreement with the proposal.		The proposals at Column A may be accepted and may be implemented through issuance of circular.

<i>Section 1: Table 7 - Advertisement Code</i>			
Column A			
7. Advertisement Code			
Proposal in the consultation paper (Column A)	Summary of Public Comments	Consideration of issue	Proposal for Board consideration
<p>The advertisement code currently prescribed for all Mutual Funds may not be necessary for MF Lite AMCs and it may be sufficient to mandate that any advertisement of passive investment schemes shall not be misleading or lead to mis-selling of such schemes. Further, any advertisement by passive schemes shall be in accordance with the offer documents and any circulars or guidelines specified by SEBI in this regard.</p>	<p>a. The public comments received on this proposal are mixed in nature. Few comments which are not in favour of a lighter advertisement code have stated that as passive schemes are also exposed to market and volatility risk and prone to the possibility of mis-selling, the existing Advertisement Code should apply to MF Lite schemes also, especially w.r.t. risks and scheme performance.</p> <p>b. It is also suggested that as the TER of the passive schemes is much lower and the scope of mis-selling is also low, considering the initial marketing and sales costs needed to promote passive funds, SEBI may consider allowing MF Lite AMCs to charge scheme advertisements and promotional campaigns cost to the AMC up to a certain threshold.</p>	<p>a. Allowing payment of promotional and advertisement costs from the books of AMC may result in unhealthy environment for the Mutual Fund industry, leading to mis-selling. Therefore, suggestion to allow AMCs to bear the scheme advertisements and promotional campaigns cost from their own books may not be accepted.</p> <p>b. There may be merit in the argument that risk of mis-selling of a product is same irrespective of whether the product pertains to an active or passive scheme. Further, we may agree that it is not desirable to have a regulatory arbitrage w.r.t the applicability of the advertisement code to active funds vis-à-vis passive funds. Therefore, it may be considered to mandate the existing advertisement code to all passive schemes under the MF Lite framework also.</p>	<p>The advertisement code as per the extant MF Regulation may be made applicable to all passive schemes under the MF Lite framework. The same may be implemented through amendment to SEBI (Mutual Fund) Regulations, 1996.</p>

<i>Section 1: Table 8 - Risk Management Committee (RMC) for oversight of risk at AMC level.</i>			
Column A			
8. Risk Management Committee (RMC) for oversight of risk at AMC level.			
Proposal in the consultation paper (Column A)	Summary of Public Comments	Consideration of issue	Proposal for Board consideration
The requirement of Audit Committee and RMC at the trustee level may not be applicable to MF Lite AMCs. Further the requirement of RMC at AMC level may be made optional and the Audit Committees of AMCs may undertake the additional role of RMCs in case of MF Lite.	<p>Majority of comments received are in agreement with the aforesaid proposal. However, respondents who are not in complete agreement with the proposal have provided the following comments:</p> <p>a. As per principles of risk management, risk management forms the second line of defense while audit forms the third line of defense. Merging both lines of defense may dilute the risk management framework of an AMC.</p> <p>b. As passive funds are exposed to several risks such as market and volatility risks, operational risks, concentration risks etc. to the same degree as active funds, it is vital that passive funds are well regulated to ensure appropriate level of investor protection without dilution.</p>	<p>a. As there are lesser risks associated with passive schemes especially, market risks and investment risks, the role of RMCs may be limited in case of passive funds and adds to the cost of compliance. Therefore, the responsibilities of RMC can be additionally carried out by the Audit Committees of AMCs</p> <p>b. Further, as mentioned at section II of Column A of Table 1, in cases of both the main and alternate eligibility routes, AMCs may appoint a separate CRO on a voluntary basis.</p>	The proposals at Column A may be accepted and may be implemented through issuance of circular.

Section 1: Table 9 - Transactions through associated broker

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Column A			
9. Transactions through associated broker			
Proposal in the consultation paper (Column A)	Summary of Public Comments	Consideration of issue	Proposal for Board consideration
<p>The current limit of 5% at the AMC level for purchase or sale of securities through an associate broker may be extended to 10% in case of associated broker and to 25% in case of a non-associate broker, for all entities under the MF Lite framework.</p>	<p>While majority of comments received are in agreement with the proposal, few comments were as under:</p> <p>a. The broker limit may be extended in the passive schemes to 25% for an associate broker and 50% in case of a non-associate broker. Further, Market Makers' creation and redemption trades may be excluded from computation of 25% limit.</p> <p>b. This relaxation should be extended to all passive schemes irrespective of registration under MF Lite as the challenges for the brokers remain the same for all passive schemes and separate limits can be set for passive and active schemes under this provision.</p> <p>c. AMC intending to launch only passive schemes under MF Lite may need large number of stock brokers to carry out the purchase & sale and market making of underlying securities which may be challenging for such AMCs. Therefore, there shouldn't be any limit in case of a non-associate brokers and limit for transactions through an associate broker may be made 10%.</p> <p>d. Market Makers creation/redemption trades to be excluded from computation of 25% Limit.</p>	<p>a. In cases of existing AMCs, they are already allowed to purchase or sell securities through any broker (other than the associated broker) with average of 5 per cent or more of the aggregate purchases and sale of securities made by the mutual fund in all its schemes, subject to the AMC having recorded in writing the justification for exceeding the limit and reports of all such investments being sent to the trustees on a quarterly basis.</p> <p>b. As the TER charged by passive MF schemes is substantially lower than the active schemes, the brokerages earned in case of passive funds are also lower than that earned from transactions in active schemes. Therefore, the brokers may be less incentivized to undertake purchase, sale and market-making in case of the passive schemes. Thus, a broker needs economies of scale in terms of volume to commit to the development of passive funds. In view of the above, it may be challenging for the AMCs registered under MF Lite framework managing only the passive schemes to attract more brokers unless the existing broker limit is enhanced in case of both associate and non- associate brokers.</p> <p>c. Currently, it is being proposed to increase the broker limit to 10% in cases of associate brokers and 25% in cases of non- associate brokers from the current limit of 5% for purchase or sell of securities at the Mutual Fund level. As the MF Lite framework is proposed for the first time, limits beyond 10%/25% are not proposed so as to avoid any broker concentration risk.</p> <p>d. Currently, the Market Makers' creation and redemption trades are already excluded from computation of the proposed broker limit as mentioned at paragraph 3.6.1.5 (c) (iii) of Master Circular for Mutual Funds.</p>	<p>The proposal at column A may be accepted subject to Market Makers' creation and redemption trades being excluded from computation of the proposed enhanced broker limits for MF Lite schemes.</p> <p>The proposal may be implemented through amendment to SEBI (Mutual Fund) Regulations, 1996.</p>

Section 1: Table 10 - Simplified Scheme Information Document (Simplified SID)			
Column A			
10. Simplified Scheme Information Document (Simplified SID)			
Proposal in the consultation paper (Column A)	Summary of Public Comments	Consideration of issue	Proposal for Board consideration
<p>a. The format for SID The fast tracking of SIDs (currently optional) may be made mandatory for passive schemes floated by AMCs registered under MF Lite framework.</p> <p>b. The format for SID is proposed to be modified which inter alia include the following:</p> <p>i. Parameters such as investment strategy, instruments in which schemes invest, performance of the scheme benchmark etc., which are not relevant in case of passive schemes shall be removed from the SID.</p> <p>ii. The important parameters related to passive schemes such as tracking error, tracking difference, name of the underlying benchmark, specific attributes of target maturity debt passive schemes such as lock in period, maturity of the target duration fund etc., which are important parameters to be understood by an investor, shall be incorporated in the SID in the “Highlight Section”.</p> <p>iii. The disclosure of other parameters such as NAV, risk factors, portfolio disclosure, scheme specific disclosure etc. may be facilitated with a web link of the AMC website in the SID.</p> <p>iv. The requirement of separate filing of the Key Information Memorandum (KIM) may be relaxed.</p>	<p>a. While majority of comments received are in agreement with the proposal, some have expressed that passive schemes should have an option for regular route for approval instead of mandatory fast tracking route. Further, this should be applicable to any passive scheme irrespective of MF lite registration.</p> <p>b. AMCs registered under the MF Lite framework should be permitted to use a ‘Common Prospectus’ and ‘Common SID’. Further, SEBI should also consider making a standard SID format that could be accessed online such that only relevant details like product features, etc. should be updated and submitted online. This would help reduce compliance load for the AMC and SEBI and fast track new products.</p>	<p>a. Simplification of SID under the extant MF Regulations has been carried out and made operational w.e.f June 01, 2024. The SID format proposed under MF lite is even a simpler version.</p> <p>b. Under the MF Lite framework, it is being proposed to allow passive funds based only on limited number of indices which are broad based and primary indices in the initial phase of its implementation. Further, MF Lite Regulations are proposed to be lighter than the extant MF Regulations. Therefore, in order to ensure that only serious players enter in to the MF Lite regime, fast track route may be made mandatory for filing of SIDs under the MF Lite framework, wherein such registration is granted based on an undertaking by CEO of the concerned AMC taking responsibility for any acts of omission or commission.</p> <p>c. In order to have an operational convenience and enable a standardized scheme approval methodology, the simplified SID may be made applicable for all passive funds based on underlying indices that would be permitted under MF Lite framework. Therefore, the simplified SID may also be applicable to those passive schemes launched by the existing AMCs, which are based on the indices that proposed to be permitted under MF Lite framework.</p>	<p>The proposal at column A may be accepted with the modification that the simplified SID may be made applicable for all passive funds based on underlying indices that would be permitted under MF Lite framework.</p> <p>The proposal may be implemented through issuance of circular.</p>

<i>Section 1: Table 11 - Submission of trustee report to SEBI</i>			
Column A			
11. Submission of trustee report to SEBI			
Proposal in the consultation paper (Column A)	Summary of Public Comments	Consideration of issue	Proposal for Board consideration
The requirement of submission of trustee report to SEBI may be discontinued considering the limited role of trustees in case of MF Lite. However, since Board of AMC shall have the primary accountability of acting in the interests of the investors, the Board of AMC may be required to submit an yearly AMC Report (YAR) in case of MF Lite.	While majority of comments received are in agreement with the proposal, one of the comments stated that it is crucial to ensure that the reduction in administrative tasks does not compromise investor protection and regulatory oversight.	<p>a. Considering the rule based nature of the passive funds, there is negligible discretion with AMCs regarding asset allocation, investment objective, investment related conflict of interest etc. and hence, the significance of the areas requiring independent evaluation of trustees, gets considerably reduced for such passive schemes. Accordingly, most of the responsibilities under the extant requirements are proposed to be shifted to the Board of AMCs of MF Lite.</p> <p>b. In view of the above, since Board of AMC shall have the primary accountability of acting in the interests of the investors under the MF Lite framework, the Board of AMC may be required to submit Yearly AMC Report (YAR) in case of MF Lite.</p>	The proposals at Column A may be accepted and may be implemented through amendment to SEBI (Mutual Fund) Regulations, 1996.

Section 2: Table 12 - Investor education and awareness

Section 2: Table 12 - Investor education and awareness			
Column A			
12. Investor education and awareness			
Proposal in the consultation paper (Column A)	Summary of Public Comments	Consideration of issue	Proposal for Board consideration
<p>a. The AMCs may allocate funds towards investor education and awareness initiatives for passive schemes and Fund of funds, as under:</p> <p>i. ETFs/Index Funds/Overseas Fund of Funds (FoFs) investing in underlying ETFs</p> <ul style="list-style-type: none"> • For total AUM up to INR 250 Cr. – Nil • For total AUM beyond INR 250 Cr. – 5% of TER charged to direct plans, subject to maximum of 0.5 bps of AUM. <p>ii. Domestic Fund of Funds (investing more than 80% of NAV in underlying domestic passive fund) – Nil</p> <p>b. Out of the total amount transferred to AMFI for investor awareness by AMCs, AMFI shall allocate a minimum of 5 percent for focused investor education and awareness towards promoting passive funds, distinct from AMFI’s general investor education initiatives.</p>	<p>a. While majority are in favour of the proposal, some have stated that passive funds should be exempt from allocating towards investor education requirement for a total AUM up to INR 500 crore instead of INR 250 Cr.</p> <p>b. It is stated that as AUM of passive schemes stands at 1/6th of MF industry, a higher allocation for investor awareness may be made in line with AUM share i.e. ~15-20% instead of 5%. Further, proposed allocation by AMFI should be increased from 5 percent to 10 percent for focused investor education campaigns.</p> <p>c. It is suggested that the investor education fee beyond the proposed threshold of INR 250 Cr. should be charged on the incremental AUM rather than the overall AUM. Further, for any calculation of % TER, only base TER should be considered (not total).</p>	<p>a. Considering the small amount of TER charged in passive funds, the requirement for setting aside for investor education and awareness out of TER may be relaxed for MF Lite.</p> <p>b. Currently, the Mutual Funds/AMCs are required to annually set apart a minimum percentage of every scheme’s daily net assets, within the overall base TER, for investor education and awareness initiatives. Further, all AMCs are required to transfer half of such amount set aside w.r.t their schemes to AMFI, for investor awareness at an industry level. The intent behind the same was to promote MFs as a product at an industry level and not to promote by specifically differentiating the MFs as active or passive. However, it is now proposed that out of the total amount transferred to AMFI, a carve out of 5% amount may be drawn apart for investor education and awareness specifically for passive funds only, which is sufficient to promote passive schemes to start with.</p> <p>c. It is proposed that passive funds may be charged at 5% of TER charged to direct plans for investor education and awareness, with a cap of 0.5 bps of AUM. Therefore, an upper cap is already provided for the total amount to be charged for the investor education and awareness. Hence, considering the base TER instead of total TER for calculation of the aforesaid amount may not be necessary. However, it is clarified that while calculating the amount specified for investor education and awareness, the total TER of direct plan shall be used for calculation of the total amount.</p>	<p>a. The AMCs may allocate funds towards investor education and awareness initiatives for passive schemes and Fund of funds, as under:</p> <p>i. Fund of Funds (investing more than 80% of its NAV in the underlying domestic passive fund – Nil</p> <p>ii. ETFs/Index Funds/Overseas Fund of Funds (FoFs) investing in underlying ETFs: 5% of total TER charged to direct plans, subject to maximum of 0.5 bps of AUM.</p> <p>b. Out of the total amount transferred to AMFI for investor awareness by AMCs, AMFI may allocate a minimum of 5 percent for focused investor education and awareness towards promoting passive funds, distinct from AMFI’s general investor education initiatives.</p> <p>The proposal may be implemented through issuance of circular.</p>

Section 2: Table 13 - Introduction of Hybrid ETFs/ Index Funds

Column A															
13. Introduction of Hybrid ETFs/ Index Funds															
Proposal in the consultation paper (Column A)		Summary of Public Comments													
<p>A new class of passive fund known as Hybrid passive funds may be introduced which shall replicate a composite index comprising fixed proportions of equity and debt and enable investors to invest in a single product having exposure to both equity and debt instruments. The proposed framework for hybrid passive schemes is as under:</p> <p>i. Hybrid ETF / Index Fund shall mean an ETF / Index Fund which tracks an index containing a combination of constituents of domestic equity and debt indices. ii. To begin with, only 3 sets of hybrid passive schemes shall be permitted with the following features:</p> <p>Categories of Hybrid Passive</p> <table border="1"> <thead> <tr> <th>Sr. No</th> <th>Schemes</th> <th>Asset Allocation of Benchmark</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Debt oriented</td> <td>Equity: Debt – 25:75</td> </tr> <tr> <td>2</td> <td>Balanced</td> <td>Equity: Debt- 50:50</td> </tr> <tr> <td>3</td> <td>Equity oriented</td> <td>Equity: Debt- 75:25</td> </tr> </tbody> </table>		Sr. No	Schemes	Asset Allocation of Benchmark	1	Debt oriented	Equity: Debt – 25:75	2	Balanced	Equity: Debt- 50:50	3	Equity oriented	Equity: Debt- 75:25	<p>While the comments have been made in favour of the proposal, certain suggestions have been made which are summarized as under:</p> <p>a. The AMCs may be allowed to launch one ETF and one Index Fund for each category.</p> <p>b. The following 4 categories of hybrid schemes may be allowed. • Conservative (Equity 35%-45% and Debt 55%-65%) • Dynamic Allocation (Equity 0-100%, Debt 0%-100%, any other asset class - 0-10%) • Equity Oriented (Equity 65%-100% and Debt 0-35%) • Multi Asset (Equity 70% -100%, Debt 0- 20% and Commodity or any other asset class - 0-10%) A separate Fund category, namely - Target Date Funds having multiple dates e.g., 20 years, 30 years, 40 years etc. may be considered.</p> <p>c. For static allocation, AMCs may be allowed to choose the desired mix of equity and debt based on a SEBI defined range.</p> <p>d. Dynamic asset allocation, products on factor based indices like “Low Volatility” or “Quality” etc. may also be allowed within a SEBI defined range. e. The allocation for Debt oriented hybrid passive scheme may be kept in proportion of 35:65 (Equity: Debt). Accordingly, the Equity oriented hybrid passive allocation may be at 65:35 (Equity: Debt). f. Target Date FOFs which are rule-based schemes that periodically rebalance asset class weights to optimize risk and return for a predetermined time frame, should be allowed under MF Lite. Also, Sector/Thematic schemes for debt component (excluding money market, G-Sec, T-bill & SDL) may be considered. g. Hybrid passive category may include another asset class i.e. Commodity. h. Equity component should not be restricted to broad based indices or top 250 companies by market cap and may be allowed to have “Multi-cap” or “All-cap” approaches. i. The tracking difference of 1.25% is too low and not appropriate, considering managing equity and debt portfolio in a hybrid fund may entail higher churn and higher associated underlying cost to manage the portfolio of the scheme. Therefore, tracking difference may be set at 2% for Hybrid funds. j. For replication, it will be very challenging and difficult for AMCs to compute the tracking error/ tracking difference for equity/debt separately, since the hybrid schemes NAV would be a composite single NAV. k. Minimum subscription at the time of NFO should be considered as lower at Rs. 5 Crore similar to Equity oriented schemes instead of Rs. 10 Crore.</p>	
Sr. No	Schemes	Asset Allocation of Benchmark													
1	Debt oriented	Equity: Debt – 25:75													
2	Balanced	Equity: Debt- 50:50													
3	Equity oriented	Equity: Debt- 75:25													
		Consideration of issue													
		<p>a. In the first phase of implementation of MF Lite framework, only debt and equity oriented indices may be allowed under the hybrid category of passive funds. Indices with commodities as constituents may be allowed in the subsequent phases of implementation of the MF Lite Framework. Therefore, multi asset and dynamic hybrid categories may not be permitted in the current phase and may be explored in subsequent phases of implementation.</p> <p>b. Further, in order to provide flexibility to the AMCs to launch hybrid funds in each category, a range may be considered to be provided for each asset class in each category of hybrid funds along with ensuring that a minimum percentage of investment is made in each relevant asset class so that the hybrid nature of fund is maintained. Accordingly, the range may be as under: i. Balanced (Equity 40%-60% and Debt 40%-60%) ii. Equity Oriented (Equity 65%-80% and Debt 20%-35%) iii. Debt oriented (Debt 65%-80% and Equity 20%-35%) However, AMCs may be required to fix the asset allocation mix of equity and debt within the defined range in each category of hybrid passive fund as given above, while filing the SID with SEBI.</p> <p>c. Considering that passive funds based on only broad indices are to be allowed in the initial phase of implementation of the MF Lite framework, target dated funds, funds based on dynamic strategies, factor based indices etc. may not be allowed under the hybrid passive funds.</p>													
		Proposal for Board consideration													
		<p>The following is proposed:</p> <p>a. A new class of passive fund i.e. Hybrid passive funds may be introduced, which shall replicate a composite index comprising of equity and debt and enable investors to invest in a single product having exposure to equity and debt instruments. The proposed framework for hybrid passive schemes is as under: i. Hybrid ETF / Index Fund shall mean an ETF / Index Fund which tracks an index/ indices containing a combination of equity and debt constituents. ii. To begin with, the following 3 categories of hybrid schemes may be allowed. • Balanced (Equity 40%-60% and Debt 40%-60%) • Equity Oriented (Equity 65%-80% and Debt 20%-35%) • Debt oriented (Debt 65%-80% and Equity 20%-35%)</p> <p>b. The AMCs may be allowed to launch one ETF and one Index Fund for each category as mentioned above.</p> <p>c. The minimum subscription amount at the time of New Fund Offer (NFO) for Hybrid ETFs/ Index Funds may be Rs. 10 Crore.</p> <p>d. The ETF/ Index Fund may be required to evaluate and ensure compliance of the asset allocation of equity and debt for all its Hybrid ETFs/ Index Funds, at the end of every calendar quarter. e. The provisions regarding composition of indices for debt ETFs / Index Funds as specified in paragraph 3.5 of the Master Circular for Mutual Funds, shall apply to the debt component of Hybrid ETFs / Index Funds also. Further, debt indices for this purpose shall be only constant duration indices which shall be specified by AMFI, in consultation with SEBI.</p>													
<p>iii. A MF shall launch maximum 1 scheme per aforesaid category of hybrid funds. iv. The minimum subscription amount at the time of New Fund Offer (NFO) for Hybrid ETFs/ Index Funds shall be INR 10 Crore. v. The ETF/ Index Fund issuer shall evaluate and ensure compliance of the asset allocation of equity and debt for all its Hybrid ETFs/ Index Funds, at the end of every calendar quarter. vi. The provisions regarding composition of indices for debt ETFs / Index Funds as specified in paragraph 3.5 of the Master Circular for Mutual Funds, shall apply to the debt component of Hybrid ETFs / Index Funds also. Further, debt indices for this purpose shall be only constant duration indices which shall be specified by AMFI, in consultation with SEBI. vii. The provisions regarding composition of indices for Equity ETFs / Index Funds under paragraph 3.4 of the Master Circular for Mutual Funds shall apply to the Equity Index component of Hybrid ETFs / Index Funds. The equity indices shall be only broad based indices based on one of the indices comprising of equity shares from top 250 companies in terms of market capitalization and from the list of indices which shall be specified by AMFI, in consultation with SEBI. viii. The provisions regarding replication and rebalancing norms as specified in paragraphs 3.5 and 3.6.7 of the Master Circular for Mutual Funds for ETF / Index Funds shall apply as per the existing norms for debt and equity components of Hybrid ETF /Index Funds, respectively.</p>		<p>d. The AMCs may be allowed to launch one ETF and one Index Fund for each category as mentioned above.</p> <p>e. The underlying index to be tracked by such hybrid funds may be based on the composition of an equity and a debt index from the final list of equity and debt indices proposed to be permitted under the MF Lite framework.</p> <p>f. In case of hybrid passive schemes, considering the difficulty in calculating the TE and TD separately for equity and debt components, since only a composite scheme level NAV will be computed, AMCs may not be required to compute the tracking error/ tracking difference for equity/debt indices separately. TD for such funds may be specified by SEBI, after consultation with stakeholders.</p> <p>g. Currently, the minimum subscription amount at the time of New Fund Offer (NFO) for debt ETFs/ Index is Rs. 10 Cr, which is substantially small and reducing the same further may not achieve any material benefit. Therefore, the minimum subscription amount at the time of NFO may be kept at Rs. 10 Cr. in cases of hybrid passive funds as well.</p>													
<p>ix. Hybrid ETFs / Index Funds shall disclose the tracking error (TE) and tracking difference (TD) for both equity and debt components of the portfolio and the underlying index. Further, the TD for such funds shall be targeted to be less than 1.25%. Note: In case of Hybrid passive funds, where 100% replication of underlying debt constituents is not envisaged, targeted TD as applicable on debt ETF/Index funds is proposed. x. Sectoral / Thematic funds and Target Maturity Funds shall not be allowed for the equity and debt components respectively, of the Hybrid passive funds. xi. Hybrid ETFs may disclose the indicative NAV (iNAV) at least four times a day i.e., opening and closing iNAV and at least two times during the intervening period with minimum time lag of 90 minutes between the two disclosures.</p>		<p>f. The provisions regarding composition of indices for Equity ETFs / Index Funds under paragraph 3.4 of the Master Circular for Mutual Funds may apply to the Equity Index component of Hybrid ETFs / Index Funds.</p> <p>g. The underlying index to be tracked by such hybrid funds shall be the composition of an equity and a debt index from the final list of equity and debt indices that would be permitted under the MF Lite framework.</p> <p>h. The provisions regarding replication and rebalancing norms as specified in paragraphs 3.5 and 3.6.7 of the Master Circular for Mutual Funds for ETF / Index Funds shall apply as per the existing norms for debt and equity components of Hybrid ETF /Index Funds, respectively.</p> <p>i. The TD for such funds may be specified by SEBI, after consultation with stakeholders.</p> <p>j. Hybrid ETFs may disclose the indicative NAV (iNAV) at least four times a day i.e., opening and closing iNAV and at least two times during the intervening period with minimum time lag of 90 minutes between the two disclosures.</p> <p>The proposal may be implemented through issuance of a circular.</p>													

Section 2: Table 14 - Investment and trading in securities by the employees of the AMC(s) and Trustee(s)			
Column A			
14. Investment and trading in securities by the employees of the AMC(s) and Trustee(s)			
Proposal in the consultation paper (Column A)	Summary of Public Comments	Consideration of issue	Proposal for Board consideration
Currently, various approvals and reporting requirements are mandated prior to any investment and/or for trading in securities by the employees of the AMCs and trustees. Considering negligible scope for active management of funds in passive schemes, prior approval of employees' transactions may be replaced with prior intimation. Thus, with respect to MF Lite, prior intimation of at least 3 working days before the date of transaction may be mandated and the requirement for reporting of employees' transactions within 7 working days may be retained.	<p>a. While some have stated that only one of the two proposed intimation requirements, i.e., prior or post transaction intimation may be mandated to avoid duplication, others have commented that prior approval should be mandated in place of prior intimation.</p> <p>b. A balanced approach could involve maintaining a streamlined approval process for significant transactions or those involving sensitive securities, alongside the 3- day prior intimation for routine trades.</p>	For the purpose of maintaining transparency in all securities transaction by key employees, prior intimation and reporting post the transaction, may be mandated.	<p>The proposals at Column A may be accepted.</p> <p>The proposal may be implemented through issuance of a circular.</p>

Section 2: Table 15 - Compliance and disclosures

Section 2: Table 15 - Compliance and disclosures			
Column A			
15. Compliance and disclosure			
Proposal in the consultation paper (Column A)	Summary of Public Comments	Consideration of issue	Proposal for Board consideration
<p>i. Updation of SID & KIM As per current provisions, SIDs are required to be updated within next six months from the end of the 1st and 2nd halves of the financial year in which the schemes were launched, based on the relevant data and information as at the end of previous month. Further, SID needs to be updated within one month from the end of the half-year, based on the relevant data and information as at the end of September and March months respectively. In this regard, it is proposed that SID for the passive schemes, based on indices that would be permitted under MF Lite framework, may be updated within 2 months from the end of the financial year.</p>	<p>While the comments are in favour of the proposal, some have commented that the relaxations may be made applicable to all passive schemes including the existing passive funds under SEBI MF Regulations and not just for those launched under MF Lite.</p>	<p>This proposal is intended to be made applicable for the passive schemes based on indices that would be covered under the MF Lite framework. Therefore, if passive schemes based on specified indices are already launched by the existing AMCs, the relaxation shall also be applicable to those passive schemes.</p>	<p>The proposals at Column A may be accepted.</p> <p>The proposal may be implemented through Amendment to SEBI (Mutual Fund) Regulations, 1996 and operational modalities through issuance of circular.</p>
<p>ii. Portfolio Disclosure The portfolio disclosure norms for the passive schemes, based on indices that would be permitted under MF Lite framework, may be relaxed as under:</p> <ul style="list-style-type: none"> • Debt and hybrid passive schemes: monthly basis within 10 days of every month. • Equity Passive schemes: within 10 days from the close of each quarter. • Separate disclosure on a half yearly basis may be done away for passive funds with as the same is already incorporated in the monthly and quarterly disclosure of Debt (& hybrid) and equity passive schemes. 			
<p>iii. Unaudited Half Yearly Financials Considering that the passive schemes aim to replicate the returns of underlying index or benchmark, the requirement for publishing unaudited half yearly financials of the passive schemes, based on indices that would be permitted under MF Lite framework, may be discontinued and the Annual Report of such schemes may be required to continue to provide such details.</p>			

Section 2: Table 16 - Investments by passive schemes

Section 2: Table 16 - Investments by passive schemes			
Column A			
16. Investments by passive schemes			
Proposal in the consultation paper (Column A)	Summary of Public Comments (Column B)	Consideration of issue	Proposal for Board consideration
<p>a. Considering the simpler operations of passive schemes, underlying securities in which they invest may be equity, plain vanilla debt securities, physical commodities and exchange traded commodity derivatives.</p> <p>b. Investment in equity derivatives of underlying securities forming part of the index may also be available as an investment option in case the underlying security is not available for purchase. However, investments in bespoke debt securities and debt derivatives may not be allowed.</p> <p>c. The provisions related to Interval schemes, Capital Protection oriented schemes, Real Estate MF schemes and Infrastructure Debt Fund Schemes may not be relevant under the MF Lite regime and hence, may not be applicable. Similarly, provisions such as stress testing for debt funds and liquidity risk management framework for debt funds may continue to not be applicable for passive funds, as is the case at present.</p> <p>d. Further, passive schemes may not be allowed to invest in the following:</p> <ul style="list-style-type: none"> • Unlisted debt instrument • Bespoke or complex debt products • Securities with special features • Inter scheme transactions • Short selling • Derivatives (except for portfolio rebalancing) • Unrated debt and money market instruments (except Gsecs, T-Bills and other money market instruments) 	<p>a. While comments are majorly in favour of the proposal, some have stated that the investment in equity derivatives of underlying securities may be allowed in instances such as portfolio rebalancing, unavailability of the securities, in case of events including but not limited to corporate actions, scheme of arrangement, etc. affecting the weightage of the stock etc.</p> <p>b. Also, inter scheme transactions may be allowed within passive schemes for portfolio rebalancing esp, keeping in mind characteristics of the debt market.</p>	<p>a. The proposal for permitting investment in equity derivatives of underlying securities for the instances as defined at paragraph (b) of Column B of Table 16 may be considered.</p> <p>b. Under the extant regulatory framework, inter scheme transactions have been permitted only under exceptional circumstances. Hence, it is not envisaged as a regular feature for managing MF schemes.</p>	<p>The proposals at Column A may be accepted with the following modification:</p> <p>Investment in equity derivatives of underlying securities may be allowed in instances such as portfolio rebalancing, unavailability of the securities, in cases of events of corporate actions, scheme of arrangement, etc. affecting the weightage of the stock etc.</p> <p>The proposal may be implemented through issuance of a circular.</p>

Section 2: Table 17 - Tracking difference (TD) for equity oriented passive schemes

Section 2: Table 17 - Tracking difference (TD) for equity oriented passive schemes			
Column A			
17. Tracking difference (TD) for equity oriented passive schemes			
Proposal in the consultation paper (Column A)	Summary of Public Comments	Consideration of issue	Proposal for Board consideration
<p>Currently, as there is no regulatory requirement for maintaining TD in case of equity passive schemes, TD may be mandated for the equity passive schemes also wherein the TD may be targeted to be lower of 1.5 times of TER charged or 1.25%.</p>	<p>The public comments received on this proposal are mixed in nature. Comments, which are in partial agreement/ disagreement, have provided the following comments:</p> <p>a. Targeting of TD of (TER + 50 Bps) or 1.5 percent, whichever is lower, for domestic equity ETF schemes may be considered. It is also stated by some that TD may be kept at 1.50% (excluding TER) for equity related passive schemes and 1% (ex-of TER) for debt related passive schemes, considering that debt schemes have lower volatility as compared to equity.</p> <p>b. For international equity schemes, TD should not be specified as cost associated with trading in different offshore market is different and significantly high.</p>	<p>a. While the maximum permissible TER for passive funds is 100bps, the actual TER charged by such schemes is 20 bps on an average. Therefore, instead of prescribing a flat limit of TD, it may be appropriate to link the TD with the actual TER charged by that scheme. Therefore, TD may be mandated for the equity oriented passive schemes as (TER + specified bps).</p> <p>b. Considering that only selected overseas indices are to be included in the MF Lite regime based on their global AUM, TD may be mandated for both domestic and international passive schemes that would be covered under the MF Lite framework.</p> <p>c. The additional cost on and above TER in cases of equity oriented passive schemes are STT, Brokerage cost, index provider cost, stamp duty and other associated fees etc. Based on an analysis of data, the following is observed: Median difference between TD and TER for ETFs: 12bps Median difference between TD and TER for Index Funds: 54bps</p> <p>In view of the above, in case of equity oriented passive schemes, the TD may be targeted to be 50 bps (over and above actual TER charged).</p>	<p>It is proposed that in case of equity oriented passive schemes, tracking difference may be targeted to be 50 bps (over and above actual TER charged).</p> <p>The proposal may be implemented through issuance of a circular.</p>

Section 2: Table 18 - Uniform guidelines for launching equity passive schemes for overseas indices			
Column A			
18. Uniform guidelines for launching equity passive schemes for overseas indices			
Proposal in the consultation paper (Column A)	Summary of Public Comments	Consideration of issue	Proposal for Board consideration
<p>a. A uniform approach may be applied to standardize the overseas indices on which ETFs or FoF may be launched. In view of the above, the following framework is proposed:</p> <p>i. The indices, on which overseas passive schemes are to be launched, shall be standardized across industry and broad based. AMCs may be allowed to launch overseas passive schemes only on such indices as may be prescribed by AMFI, in consultation with SEBI.</p> <p>ii. Overseas ETFs/Index funds and FoFs investing in overseas ETF/index shall comply with the diversification requirement of minimum 10 securities in an equity index portfolio.</p> <p>iii. Overseas passive schemes shall comply with Undertakings for the Collective Investment in Transferable Securities (UCITS) guidelines of 5/10/40 criteria, which states that no single asset shall represent more than 10% of the index and constituent holding of more than 5% cannot in aggregate exceed 40% of the index.</p> <p>iv. In addition to the above, certain widely known and tracked Overseas indices of the leading Index providers /Stock exchanges shall also be allowed.</p> <p>b. Notwithstanding paragraphs a(iii) and a(iv) above, the permissible overseas indices, under the proposed MF Lite framework, shall be subject to a threshold based on a minimum global AUM following such indices as may be specified by SEBI.</p>	<p>a. The comments received in this regard are mixed in nature. Some have commented that UCITS guidelines which is a European Commission regulatory framework for managing and selling of mutual funds in European Union, the same may not be made mandatory for all indices.</p> <p>b. While some have commented against standardization of the list of indices on which offshore ETFs Index funds can be launched, others have stated that passive products on offshore indices which are broad based as well as sectoral and thematic should be allowed as long as they meet the criteria applicable to domestic indices for ETF and Index Funds.</p> <p>c. While some have expressed that there should be no criteria on threshold at individual index level whether international or domestic, comments have also been received that an AUM threshold of above INR 10,000 Crores can be considered for selection of indices.</p>	<p>a. An analysis of data pertaining to the existing overseas passive schemes was carried out in order to understand the list of overseas indices on which currently there are passive schemes in India, the global AUM on these indices, whether these indices comply with the UCITS guidelines etc. Based on the said analysis, discussions with the MF industry and further internal deliberation, the following may be considered:</p> <p>i. In the current regulatory regime, concentration norms for underlying index have been specified for equity ETFs and Index funds. Although the said concentration norms are applicable for the overseas indices also, the construction of overseas indices may vary w.r.t selection of stocks of different countries, liquidity in the stocks of different countries, impact cost of the underlying stocks etc. In view of the above, it is necessary to adopt a uniform approach to standardize the overseas indices.</p> <p>ii. As overseas indices may vary depending on selection of stocks of different countries, liquidity in the stocks of different countries, impact cost of the underlying stocks etc., a careful approach is required while including such indices in the light touch MF Lite regime. In view of the above, it may be considered to include only those overseas indices under MF Lite framework, which are broad based and liquid enough for considering to launch passive schemes on these indices.</p> <p>iii. Considering that the UCITS guidelines are applicable only to indices in the European Union, the same may not be mandated as a criterion for selection of overseas indices to be covered under MF Lite framework.</p> <p>iv. In view of the above, passive funds based on only those overseas equity passive indices, whose quantitative threshold/ AUM exceeds a minimum threshold \$ 20 billion may be covered under phase 1 of implementation of MF Lite.</p> <p>v. AMFI, in consultation with SEBI, may prescribe the list of such equity overseas indices on a periodic basis.</p>	<p>It is proposed that the following may be prescribed for standardization of the overseas indices on which ETFs or FoF may be launched:</p> <p>i. The indices, on which overseas passive schemes are to be launched, may be required to be standardized across industry and broad based.</p> <p>ii. Overseas ETFs/Index funds and FoFs investing in overseas ETF/index may be required to comply with the diversification requirement of minimum 10 securities in an equity index portfolio.</p> <p>iii. Passive funds based on only those overseas equity passive indices, whose quantitative threshold/ AUM exceeds a minimum threshold of \$ 20 billion may be covered under phase 1 of implementation of MF Lite. AMFI, in consultation with SEBI, may prescribe the list of such equity overseas indices on a periodic basis.</p> <p>The proposal shall be implemented through issuance of a circular.</p>

Section 2: Table 19 - Categories of schemes under MF Lite framework

Column A			
19. Categories of schemes under MF Lite framework			
Proposal in the consultation paper (Column A)		Summary of Public Comments	
a. Approach 1		Consideration of issue	
<p>• This approach shall be implemented in a phased manner. Under phase 1, a list shall be prescribed by SEBI constituting only those domestic equity passive indices (broad indices tracked by passive funds or act as primary benchmark for actively managed funds), whose quantitative threshold/ AUM exceeds a minimum threshold of either INR 10,000 Cr. or INR 5,000 Cr. or with no threshold.</p> <p>• Further, overseas indices, to be permitted as per table 18, may also be permitted in phase 1 of implementation of MF Lite regime. Schemes based on other indices may be considered to be allowed in phase 2 of implementation.</p> <p>• As regards debt passive schemes, only those target maturity and target duration debt passive schemes may be considered in phase 1 of implementation of MF Lite regime, which comply with the underlying principle that the constituents of the reference benchmark of such debt passive schemes should not change, other than in case of periodic rebalancing criteria based on simple parameters such as duration.</p> <p>• The aforesaid list of equity and debt indices may be prescribed by AMFI, in consultation with SEBI.</p> <p>• Further, in case of the existing mutual funds registered under the existing MF framework, all the proposals mentioned at Section 2 of the consultation paper pertaining to ease of compliance, relaxed disclosures and other regulatory provisions shall be applicable only to limited sets of passive schemes based on the indices permitted under this approach.</p>		<p>a. The majority of the comments received are in favor of proposed Approach 2 for implementation. In this regard, it has been stated that Approach 2 provides a broader and more flexible framework and Approach 1 may limit the passive funds' ability to offer variety of products and expand.</p> <p>b. AMCs may also be allowed to launch ETFs on bespoke indices, as an upcoming trend in the global ETF space, as bespoke indices provide an opportunity to offer a unique customized strategy to the investors based on macro-economic indicators.</p> <p>c. While some have stated that no threshold should be prescribed if it is decided to adopt Approach 1, some have suggested an AUM threshold of minimum Rs. 5,000 Cr. as appropriate to start with.</p> <p>d. Target maturity and Target duration-based Debt indices as well as all constant duration-based debt indices which adhere to SEBI guidelines and framework recommended by AMFI should be sufficient / be allowed, in place of a specific list notified by AMFI.</p> <p>e. MF Lite AMCs do not have a level playing field with the existing AMC, which does not choose to hive off its passive schemes. For example, if the AMC is hived off then the passive AMC will not be able to launch any passive scheme other than broad based index based passive schemes, which can be launched by the existing AMCs. It would discourage the AMCs to hive off their passive schemes into another AMC for these reasons.</p>	
b. Approach 2		Proposal for Board consideration	
<p>• There may not be a phased implementation and all existing ETFs, Index funds, domestic and overseas FoFs investing in a single ETF/Index fund may be included under MF Lite regime.</p> <p>• Further, for any new equity passive scheme with underlying index other than those with existing passive schemes, they may be launched subject to list of such indices prescribed by AMFI, in consultation with SEBI.</p> <p>• For debt passive schemes, the existing requirement for AMFI to prescribe list of indices, inter-alia specified in paragraph 3.5.2.11 of the Master Circular on Mutual Funds, shall apply.</p>		<p>a. As the MF Lite regime is intended to be lighter than current regulatory framework for MFs, the domain of passive schemes to be allowed under MF Lite framework needs to be carefully considered.</p> <p>b. Approach 2 that includes all the existing ETFs, Index funds, domestic and overseas FoFs investing in a single ETF/Index fund, also includes some passive funds, whose portfolio securities may be very less liquid leading to emergence of liquidity risk in case of redemption pressure during stressed conditions.</p> <p>c. If there is no threshold/ restriction w.r.t the list of indices to be included under the purview of MF Lite, it may lead to launch of passive funds based on illiquid or bespoke indices, which in effect may be actively managed funds in the guise of passive funds. This shall defeat the purpose of bringing a light touch regime for players willing to provide standardized and simplified passive products.</p> <p>d. Therefore, adopting Approach 1 shall ensure that only passive schemes based on broad indices are initially launched by new players in the MF Lite regime, which shall prevent proliferation of indices/ schemes. In respect of Approach 1, to begin with for domestic equity indices, an AUM threshold of minimum Rs. 5,000 Cr. may be considered.</p> <p>e. Further, overseas indices to be permitted as per Table 18 may also be permitted in phase 1 of implementation of the MF Lite regime. Schemes based on other indices may be considered to be allowed in phase 2 of the implementation.</p>	
		<p>It is proposed that only a limited set of indices may be covered under phase 1 as proposed under the approach 1:</p> <p>a. Passive funds based on only domestic equity passive indices (broad indices tracked by passive funds or act as primary benchmark for actively managed funds), with collective AUM of INR 5,000 Cr. and above, may be covered under phase 1 of implementation of MF Lite.</p> <p>b. Domestic debt passive funds based on only such domestic debt indices with collective AUM, which exceeds a threshold as may be specified by SEBI, may be covered under phase 1 of implementation of MF Lite.</p> <p>c. In cases of overseas ETFs and FoFs having single underlying overseas passive fund, passive funds based on only such overseas indices, with collective AUM of \$20 billion and above, may be covered under phase 1 of implementation of MF Lite.</p> <p>d. All FoFs investing only in single domestic/ overseas index, wherein the reference benchmarks of underlying passive funds are permitted under MF Lite framework, may be covered under the purview of MF Lite.</p> <p>e. All FoFs investing in more than one index may not be covered under the MF Lite framework under its phase 1 of implementation.</p> <p>The proposal may be implemented through issuance of a circular.</p>	

Section 3: Table 20 - Disclosure of "Debt Index Replication Factor (DIRF)" in debt oriented passive schemes

Section 3: Table 20 - Disclosure of "Debt Index Replication Factor (DIRF)" in debt oriented passive schemes			
Column A			
20. Disclosure of "Debt Index Replication Factor (DIRF)" in debt oriented passive schemes			
Proposal in the consultation paper (Column A)	Summary of Public Comments	Consideration of issue	Proposal for Board consideration
<p>Debt oriented passive schemes may also be mandated to disclose the "Debt Index Replication Factor (DIRF)" of the underlying index by the portfolio along with the TE and TD on their AMC's website. For this purpose, 100% replication at individual issuer level shall be achieved if the portfolio has same issuer in the exact same percentage as is the case for the Index. In case the weightage of a particular issuer is different in the Index and the portfolio, then lesser of the weightage (subject to assigning 0 replication percentage where the instrument is absent in either index or portfolio) would be considered as replicated ("Individual issuer Replication Factor") and the aggregate of all such replication factors in the portfolio would give portfolio level replication or DIRR. An illustration is provided below:</p>	<p>The public comments received are broadly in agreement with the proposal. Comments, which are in partial agreement/ disagreement, have stated the following:</p> <p>a. The requirement of tighter replication (through publishing of DIRF) may lead to chasing of illiquid / infrequent issuers in portfolio thus resulting in higher impact cost/tracking error.</p> <p>b. Instead of instrument level, the weights should be assigned on issuer level. For issuers forming part of index, 100% of actual portfolio weight should be assigned even if it exceeds the index weight. For issuers not forming part of index, zero weight may be assigned irrespective of portfolio weight.</p>	<p>a. The proposed DIRF is merely a proposed disclosure requirement and the existing replication methodology for debt passive schemes as per paragraph 3.5 of the Master Circular is not proposed to be changed.</p> <p>b. As per the existing regulatory requirements, corporate debt ETFs/ Index funds comprising of only corporate debt securities are considered to be replicating the underlying debt index provided investment in securities of issuers accounting for at least 60% of weight in the index, represents at least 80% of net asset value (NAV) of the ETF/ Index Fund subject to certain relaxations in duration and rating. Similarly, debt ETFs/ Index Funds based on G-sec, T-Bills and State Development Loans (SDLs) are also considered to be replicating the underlying index subject to certain relaxation in the duration of the portfolio w.r.t its benchmark. Therefore, the debt oriented passive schemes are not required to fully mimic the underlying index.</p> <p>c. However, as imperfect replication is permitted in cases of debt passive funds, it is felt that disclosure of the certain measures such as percentage replication of the underlying index by such schemes would provide useful information for the investors to compare the portfolio vis-à-vis the underlying index it follows.</p> <p>d. As mentioned at Column A of this table, 100% replication at individual issuer level shall be achieved if the portfolio has same issuer in the exact same percentage as is the case for the Index. This clarifies that the weights shall be assigned at issuer level and not at the instrument level for calculation of the DIRF.</p> <p>e. DIRF may be disclosed along with the portfolio disclosure of the debt passive schemes.</p>	<p>The proposals at column A may be accepted along with the additional requirement that DIRF may be disclosed along with the portfolio disclosure of the debt passive schemes.</p> <p>The proposal may be implemented through issuance of a circular.</p>

Section 3: Table 21 - Introduction of close ended debt passive schemes.

Section 3: Table 21 - Introduction of close ended debt passive schemes.			
Column A			
21. Introduction of close ended debt passive schemes.			
Proposal in the consultation paper (Column A)	Summary of Public Comments	Consideration of issue	Proposal for Board consideration
An option for launching of close ended debt passive scheme may be enabled.	<p>While the public comments received are broadly in agreement with the proposal, some have expressed that</p> <p>a. The existing provisions for Fixed Maturity Plans (FMPs) and closed ended target maturity funds should be uniform else it would create a regulatory arbitrage.</p> <p>b. The introduction of closed-ended debt passive schemes is a welcome proposal as it provides investors with another investment option and increases product diversity in the mutual fund market. However, the regulator should provide clear guidelines on the eligible investment universe and maturity profile of these schemes to ensure consistency and investor understanding. Additionally, it is crucial to incorporate appropriate liquidity mechanisms, such as allowing periodic repurchase of units or providing for trading on stock exchanges, to address the inherent lack of liquidity in closed-ended structures and protect investor interests.</p>	As the introduction of close ended debt passive schemes provides a new investment option for investors, an option for launching of close ended debt passive scheme may be enabled.	<p>a. The option for launching of close ended debt passive schemes may be allowed to all MFs irrespective of the MF being registered under the extant MF Regulation or the MF Lite framework.</p> <p>b. AMCs may be allowed to launch close ended passive funds based on target maturity indices only.</p> <p>c. The existing standard framework for construction of index for target maturity indices shall also be applicable for close ended passive schemes subject to compliance with paragraph 3.5 of the Master Circular for MFs on “Norms for Debt Exchange Traded Funds (ETFs)/Index Funds”. However, the rating of the underlying instruments may go below AAA up to investment grade in case of such funds.</p> <p>The proposal may be implemented through issuance of a circular.</p>

This has been excised.