

**(4) Responsibility of Key Personnel and Employees**

- (a) The Chief Executive Officer (whatever be the designation) of the mutual fund lite asset management company shall ensure that:
- (i) the mutual fund lite complies with all the provisions of these regulations and related guidelines and circulars;
  - (ii) investments made by the fund managers are in the interest of the unit holders;
  - (iii) the overall risk management function of the mutual fund lite is comprehensively managed; and
  - (iv) the mutual fund lite asset management company has adequate systems in place to ensure adherence to the Code of Conduct for Fund Managers and Dealers (specified in PART - B of the Fourth Schedule of these regulations) and any breach of this Code of Conduct shall be immediately brought to the attention of the board of directors of the mutual fund lite asset management company and trustees.
- (b) The Fund Managers (whatever be the designation including Chief Investment Officer) shall adhere to the Code of Conduct for Fund Managers and Dealers (specified in PART - B of the Fourth Schedule) and submit a quarterly self-certification to the trustees confirming compliance or list exceptions, if any.
- (c) The Dealers (whatever be the designation) shall abide by the Code of Conduct for Fund Managers and Dealers (specified in PART - B of the Fourth Schedule) and submit a quarterly self-certification to the trustees confirming compliance or list exceptions, if any.
- (d) The compliance officer appointed under clause (iv) of sub-regulation (3) of regulation 63 shall independently and immediately report any observed non-compliance to the Board.

**(5) Financial Transactions and Disclosures:****(a) Brokerage transactions**

- (i) A mutual fund lite asset management company shall ensure that purchase or sell of securities through any stock broker that is an associate of the sponsor does not, on average, exceed ten per cent of the aggregate value of securities purchases or sold by the mutual fund lite across all its schemes.
- (ii) A mutual fund lite asset management company shall ensure that purchase or sale of securities through a stock broker which is not an associate of the sponsor in excess of twenty five per cent of the aggregate value of purchases and sale of securities transacted by the mutual fund lite across all its schemes is undertaken only if mutual fund lite asset management company has recorded in writing the justification for exceeding the limit of twenty five per cent, and reports of all such investments are sent to the trustees on a quarterly basis.

Explanation: The limits specified in clauses (i) and (ii) shall apply to each block of three months and shall exclude transactions relating to the sale and distribution of units issued by the mutual fund lite and such other transactions as may be specified by the Board.

**(6) Investment concentration disclosure:**

In case any company has invested more than five 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 lite in that company or its subsidiaries shall be brought to the notice of the trustees by the mutual fund lite asset management company and be disclosed in the annual accounts of the respective schemes with justification for such investment provided the latter investment has been made within one year of the date of the former investment calculated on either side.

**(7) Reporting and oversight**

**(a) Director and key personnel disclosures:**

- (i) The mutual fund lite 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 calendar days of their appointment;
  - b. a half yearly report regarding any change in the interests of directors; and
  - 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 mutual fund lite asset management company, as the case may be, by the mutual fund lite during the said quarter.
- (ii) Each director of the mutual fund lite 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.
- (iii) The mutual fund lite asset management company shall file with trustees the details of transactions in securities by its key personnel in their own name or in the name of the asset management company, and shall report to the Board, as required.

**(b) Board of Directors' oversight:**

- (i) The Board of Directors of the mutual fund lite asset management company shall be responsible for the overall risk management of the mutual fund lite asset management company as well as the mutual fund lite schemes.
- (ii) The board of directors of the mutual fund lite asset management company shall ensure that -

- a. the mutual fund lite asset management company has been diligent in empaneling brokers, monitoring securities transactions with brokers, and avoiding undue concentration of business with specific brokers;
- b. the mutual fund lite asset management company has not given any undue or unfair advantage to any associate or dealt with any associate in any manner detrimental to the interest of unit holders;
- c. the transactions entered into by the mutual fund lite asset management company align with these regulations and the respective schemes;
- d. mutual fund lite transactions align with the provisions of the trust deed;
- e. the mutual fund lite asset management company has been managing the mutual fund lite 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 mutual fund lite asset management company;
- f. the net worth of the mutual fund lite asset management company is reviewed quarterly to ensure continuous compliance with the threshold provided in clause (e) of sub-regulation (1) of regulation (57);
- g. all service contracts including for custody arrangements of the assets and transfer agency of the securities are executed in the interest of the unit holders and test checks of service contracts are arranged;
- h. there is no conflict of interest between the deployment of the mutual fund lite asset management company's net worth and the interest of the unit holders;
- i. investor complaints are periodically reviewed and redressed;
- j. all service providers hold appropriate registrations with the Board or relevant regulatory authority;
- k. any special developments in the mutual fund lite are immediately reported to the Board;
- l. due diligence is exercise on the reports submitted by the mutual fund lite asset management company to the trustees; and
- m. due diligence is exercised on such matters as specified by the Board.

## **(8) Ethical conduct and investor protection**

### **(a) Prevention of misconduct:**

- (i) The mutual fund lite 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.
- (ii) The mutual fund lite asset management company shall be responsible for acts of commission or omission by its employees or persons whose services have been procured by the mutual fund lite asset management company, where such act or omission is committed in the course of carrying out functions under these

regulations, and involves negligence, breach of duty, or failure to comply with applicable law.

- (iii) The mutual fund lite asset management company shall abide by the Code of Conduct as specified in PART-A of the Fourth Schedule.

**(b) Market abuse deterrence:**

- (i) The Mutual Fund Lite asset management company shall establish, implement and maintain an institutional mechanism (as specified by the Board), for identifying and deterring potential market abuse, including front-running and fraudulent transactions in securities.
- (ii) The Chief Executive Officer or Managing Director (or equivalent or analogous rank) and Chief Compliance Officer of the mutual fund lite asset management company shall be responsible and accountable for implementing institutional mechanism for deterring potential market abuse, including front-running and fraudulent securities transactions.

**(c) Whistleblower policy:**

The mutual fund lite asset management company shall establish, implement and maintain a documented whistle blower policy that—

- a. provides a confidential channel for employees, directors, trustees, and other stakeholders to raise concerns about suspected fraudulent, unfair or unethical practices, violations of regulatory or legal requirements or governance vulnerability, and
- b. establishes procedure to ensure adequate protection of the whistle blowers.

**(d) Investor grievance and protection:**

The mutual fund lite asset management company shall constitute a Unit Holder Protection Committee in the form and manner and with a mandate as specified by the Board.

**(9) Scheme management and valuation:**

**(a) Registrars and share transfer agents**

- (i) registrars and share transfer agents appointed by the mutual fund lite asset management company shall be registered with the Board.
- (ii) 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.

**(b) Valuation and Disclosure**

- (i) The mutual fund lite asset management company shall compute and carry out valuation of investments made by its scheme(s) in accordance with the investment valuation norms specified in Seventh Schedule of these regulations, and shall publish the same.
- (ii) The mutual fund lite asset management company and the sponsor of the mutual fund lite shall be liable to compensate affected investors and/or the scheme for any unfair treatment to any investor resulting from inappropriate valuation.

**(c) Changes to scheme attribute:**

The mutual fund lite asset management company shall ensure that no change in the fundamental attributes of any scheme or the trust, fees and expenses payable or any other change which would modify the scheme and affect the interest of unit holders, shall be carried out unless, —

- a. written communication (including digital modes such as email/sms etc.) about the proposed change is sent to each unit holder;
- b. details, as specified by the Board, are appropriately displayed on the website of mutual fund lite asset management company; and
- c. unit holders are given an option to exit at the prevailing Net Asset Value without any exit load.

**(d) Income calculation:**

The mutual fund lite asset management company shall be responsible for calculation of any income due to be paid to the mutual fund lite and also any income received in the mutual fund lite, for the unit holders of any scheme, in accordance with these regulations and the trust deed.

**(e) Geographic scope:**

The mutual fund lite asset management company shall not carry out its fund management operations or execution of transactions relating to mutual fund lite, outside the territory of India, except for execution of trades for investment in overseas securities.

**(10) Continuing liability**

The mutual fund lite asset management company or its directors or other officers shall not be absolved of liability to the mutual fund lite for their acts of commission or omission, while holding such position or office, even though it is in compliance with any other contract or agreement or termination thereof.

**(11) Transactions with associates/sponsor:**

In case the mutual fund lite asset management company enters into any securities transactions with any of its associates a report to that effect shall be sent to the trustees at its next meeting.

**(12) Additional mutual fund lite asset management company's oversight**

- (a) The board of directors of the mutual fund lite asset management company shall review the desirability or continuance of the mutual fund lite asset management company if substantial irregularities are observed in any of the schemes and shall not allow the mutual fund lite asset management company to float new schemes.
- (b) The independent directors of the mutual fund lite 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 associates and whether the mutual fund lite asset management company has charged higher fees than outside contractors for the same services;
  - (iii) selections of the mutual fund lite asset management company's independent directors;
  - (iv) securities transactions involving associates 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, mutual fund lite asset management company and any others for services provided; and
  - (viii) any service contract with the associates of the mutual fund lite asset management company.

**(13) Meeting of the board of directors of the mutual fund lite asset management company**

The board of directors of the mutual fund lite asset management company, including any of their committees, shall hold meetings at least as often as specified by the Board, and may hold additional meetings as necessary.

**(14) Mutual fund lite asset management company's oversight for investor interests**

The board of directors of mutual fund lite asset management company shall furnish to the Board on a yearly basis, —

- (a) a report on the activities of the mutual fund lite;
- (b) a certificate stating that the board of directors of mutual fund lite asset management company 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 mutual fund lite asset management company; and

- (c) a certificate to the effect that the mutual fund lite asset management company has been managing the schemes independently of any other activities and in case any activities of the nature referred to in clause (b) of regulation 64 have been undertaken by the mutual fund lite asset management company, it has taken adequate steps to ensure that the interests of the unitholders are protected.

#### **64. Other permissible business activities of the asset management company**

The mutual fund lite asset management company, -

- (a) shall not act as a trustee of any mutual fund lite;
- (b) shall undertake only business activities that are in the nature of advisory services to pooled assets in respect of passive investments;
- (c) may itself or through its subsidiaries undertake activities permitted under clause (b) subject to the following:
  - (i) it ensures that there is no material conflict of interest across different activities;
  - (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;
  - (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; and
  - (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.

#### **65. Procedure for launching of mutual fund lite schemes**

No mutual fund lite scheme shall be launched by the mutual fund lite asset management company unless such mutual fund lite scheme is approved by the board of directors of the mutual fund lite asset management company and a copy of the offer document has been filed with the Board.

### **CHAPTER XI**

#### **EXPENSES CHARGED TO MUTUAL FUND INVESTORS**

#### **66. Fees and expenses of mutual fund schemes**

- (1) All expenses of mutual fund schemes should be clearly identified and shall be paid from the scheme. The expenses shall be subject to the base expense limits, brokerage limits, transaction cost and statutory levy permissible under these regulations.
- (2) Any expenditure in excess of the base limits specified in these regulations shall be borne by the asset management company or the trustees or sponsors. If any expense of the scheme is

- borne by asset management company or by the trustee or sponsors, the same shall be done only after the investment and advisory fees charged to the scheme, if any, is fully reversed.
- (3) All the expenditures pertaining to launch of new fund offer till the date of allotment of mutual fund units to investors shall be borne by the asset management company or trustees or sponsor.
- (4) The asset management company may charge the scheme with investment and advisory fees which shall fully disclosed in the offer document.
- (5) In addition to the fees mentioned in sub-regulation (4), the mutual fund schemes may be charged with the following recurring expenses including:
- (a) marketing and selling expenses including fees, commission and charges towards distribution of mutual fund schemes, if any;
  - (b) brokerage cost incurred towards execution of trades;
  - (c) registrar services for transfer of units sold or redeemed;
  - (d) fees and expenses of trustees;
  - (e) audit fees;
  - (f) custodian fees;
  - (g) costs related to investor communication;
  - (h) costs of fund transfer from location to location;
  - (i) costs of providing account statements and Income Distribution cum Capital Withdrawal payout/redemption cheques and warrants;
  - (j) insurance premium paid by the fund;
  - (k) winding up costs for terminating a scheme;
  - (l) costs of statutory advertisements;
  - (m) expenses towards storage and handling of underlying goods due to physical settlement of any commodity derivative contract or cost towards storage and handling of gold and silver;
  - (n) listing fees, in case of schemes listed on a recognised stock exchange; and
  - (o) such other expenses as may be specified or approved by the Board.
- (6) The asset management company shall pay charges or commission or fees related to distribution of mutual fund schemes in the manner as may be specified by the Board from time to time.
- (7) The base expense ratio of the scheme shall be sum of expenses mentioned at sub-regulation (4), sub-regulation (5) and sub-regulation (6) but excluded statutory levy applicable, if any, on the said expenses and transaction cost specified under sub-regulation (10). The base expense ratio shall be subject to the following limits:



## (a) Close Ended Schemes

Sr. No	Scheme Category	Maximum Base Expense ratio as per cent of the daily net assets
(i)	Equity oriented scheme(s)	1.00%
(ii)	Other than equity oriented schemes(s)	0.80%

## (b) Open Ended Schemes

Sr. No	Scheme Category	Maximum Base Expense ratio as per cent of the daily net assets
Index fund scheme or exchange traded fund		
(i)	Index fund scheme or exchange traded fund	0.90%
Fund of Funds		
(ii)	Expense ratio of Fund of Funds investing in liquid schemes, index fund scheme and exchange traded funds (including weighted average of the expense ratio levied by the underlying scheme(s))	0.90%
(iii)	Expense ratio of Fund of Funds, other than fund of funds mentioned at sub-regulation 7(b)(ii), investing a minimum of sixty-five per cent of assets under management in equity oriented schemes as per scheme information document (including weighted average expense ratio levied by the underlying scheme(s))	2.10 %
(iv)	Expense ratio of Fund of Funds not covered at sub-regulation 7(b)(ii) and 7(b)(iii) above (including weighted average expense ratio levied by the underlying scheme(s))	1.85 %

(c) **Open ended schemes other than the schemes specified under regulation 66 (7)(b)**

<b>Assets under management Slab (In Rs. crore)</b>	<b>Base expense ratio limits for equity oriented schemes</b>	<b>Base expense ratio limits for other than equity oriented schemes</b>
on the first Rs.500 crores of the daily net assets	2.10%	1.85%
on the next Rs.250 crores of the daily net assets	1.90%	1.65%
on the next Rs.1,250 crores of the daily net assets	1.60%	1.40%
on the next Rs.3,000 crores of the daily net assets	1.50%	1.25%
on the next Rs.5,000 crores of the daily net assets	1.40%	1.15%
On the next Rs.40,000 crores of the daily net assets	Expense ratio reduction of 0.05% for every increase of Rs.5,000 crores of daily net assets or part thereof.	
On balance of the assets	0.95%	0.70%

**Provided** that mutual fund schemes that offers to charge base expense ratio based on the performance of the scheme shall comply with the expense ratio structure and disclosures thereto as specified by the Board from time to time.

- (8) The base expense ratio of Fund of Funds to be charged over and above the weighted average of the base expense ratio of the underlying scheme shall not exceed two times the weighted average of the base expense ratio levied by the underlying scheme(s), subject to the overall ceilings for Fund of Funds as stated under sub-regulation (7), unless otherwise specified by the Board.

- (9) A mutual fund scheme may charge expense incurred towards brokerage, for the purpose of execution of trade, over and above the base expense ratio subject to a maximum of **0.06** per cent of trade value in case of cash market transactions and **0.02** per cent of trade value in case of derivatives transactions. Expense charged towards brokerage, over and above the specified limit, shall be part of the base expense ratio limit specified under sub-regulation (7).
- (10) Transaction cost incurred for the purpose of execution of a trade shall mean regulatory levies and any other expenses charged by the stock exchanges, clearing corporation, and clearing house, as applicable. Such transaction costs shall not form part of the base expense ratio.
- (11) Any expenses other than those specified in sub-regulation (4), sub-regulations (5), sub-regulation (6), sub-regulation (9) and sub-regulation (10), shall be borne by the asset management company or trustee or sponsors.

### **67. Total Expense Ratio**

- (1) The total of all expenses charged to the investors of the scheme, as mentioned under definition of 'Total expense ratio', shall be total of expense charged within the base limit specified under sub-regulation 7 of regulation 66, brokerage cost permitted under sub-regulation 9 of regulation 66, transaction cost incurred for the purpose of execution of trade as referred under sub-regulation 10 of regulation 66, and statutory levies charged to the investors.
- (2) No charges other than the base expense ratio, brokerage cost, transaction cost, statutory levy and exit load including levies as may be specified by the Board, shall be charged to the investors.

## **CHAPTER XII**

### **ANNUAL REPORT OF MUTUAL FUND SCHEMES**

#### **68. Annual report of mutual fund schemes**

Every mutual fund or the asset management company shall prepare in respect of each financial year, an annual report of the schemes as specified in the Ninth Schedule and such other requirements as specified by the Board from time to time.

#### **69. Auditor's report**

- (1) Every mutual fund shall have the annual statement of accounts audited by an auditor who is not associated with the auditor of the asset management company.

**Explanation:** For the purposes of this sub-regulation and regulation 79 "auditor" means a firm, including a limited liability partnership, constituted under the LLP Act, 2008, who is

eligible and qualified to audit the accounts of a company under section 141 of the Companies Act, 2013 (18 of 2013).

- (2) An auditor appointed by the trustees shall submit his report to the trustees and such report shall form part of the Annual Report of the mutual fund.
- (3) The auditor's report shall comprise a certificate to the effect that:
  - (a) he/she has obtained all information and explanations which, to the best of his/her knowledge and belief, were necessary for the purpose of the audit;
  - (b) 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; and
  - (c) the statement of account has been prepared in accordance with accounting policies and standards as specified in the Eighth Schedule.

### CHAPTER XIII

### DISCLOSURES TO UNITHOLDERS AND BOARD

#### 70. Disclosures to the investors

##### (1) Disclosure of annual report of mutual fund schemes to unitholders

- (a) The asset management company shall send the digital copy of the scheme-wise Annual Report of a mutual fund or an abridged summary thereof to all unitholders within four months from the date of closure of the relevant financial year, in the manner specified by the Board from time to time.
- (b) The Annual Report and its abridged scheme wise summary shall contain the details as specified in the Ninth Schedule and such other information necessary to present a true and fair view of the operations of the mutual fund.
- (c) The asset management company shall provide physical copy of the abridged summary of the Annual Report, prepared in the format specified by the Board from time to time, without any cost, if a request is received from a unitholder.
- (d) The asset management company may provide physical copy of the Annual Report to the unitholders on payment of such nominal fees as may be specified by the mutual fund.
- (e) The asset management company shall display a functional link of the full scheme-wise Annual Reports prominently on their website.

##### (2) Disclosure of half-yearly unaudited financial results to unitholders

- (a) Every mutual fund and asset management company shall, within one month from the close of each half-year ending on 31st March and 30th September, host the unaudited financial results of their schemes on their website.

- (b) The financial results referred to in clause (a) shall be in the format specified by the Board from time to time and shall include such additional details as are necessary to give a true and fair view of operations of the mutual fund.
  - (c) Written communication (including digital modes such as email/SMS etc.) shall be sent to unitholders by the asset management company about the availability of financial results referred to in clause (a).
- (3) **Disclosure of portfolio statement:** An asset management company shall send to all unitholders a complete statement of its scheme portfolio in the manner as specified by the Board from time to time.
- (4) **Disclosure of total expense ratio:** The total expense ratio of mutual fund schemes shall be disclosed to the investors in manner and format specified by the Board from time to time.
- (5) **Disclosure of net asset value:** The Net Asset Value of the scheme shall be calculated on daily basis and disclosed in the manner specified by the Board from time to time.
- (6) **Other Disclosures**
- (a) The trustee shall make such disclosures to the unitholders as are essential in order to keep them informed about any information which may have an adverse bearing on their investments.
  - (b) No sale of units of any scheme of a mutual fund shall be made by the trustees or an asset management company unless investment application is accompanied by documents containing adequate information for the investors to make an informed decision.
  - (c) The mutual fund, and the asset management company, the trustees, custodian and sponsor of the mutual fund shall:
    - (i) make such disclosures as may be specified by the Board; and
    - (ii) submit such documents as they may be called upon to do so by the Board.

## 71. Dispute resolution and grievance redressal mechanism.

- (1) The asset management company shall redress investor grievances promptly but not later than twenty-one calendar days from the date of receipt of the grievance, and in such manner as may be specified by the Board from time to time.
- (2) All claims, differences or disputes between the asset management company and investors, arising out of or in relation to the activities of the asset management company in the securities market, shall be submitted to a dispute resolution mechanism that includes mediation, conciliation and arbitration, in accordance with the procedure specified by the Board.
- (3) The Board may recognize a body corporate for handling and monitoring the process of grievance redressal within such time and in such manner as may be specified.

## CHAPTER XIV GENERAL OBLIGATIONS

### 72. To maintain proper books of account and records

- (1) Every asset management company shall keep and maintain proper books of account, records and documents, for each scheme so as to-
  - (a) explain its transactions, including inter scheme transactions, and rationale for valuations;
  - (b) maintain a complete audit trail;
  - (c) disclose, at any time, the financial position of each scheme; and
  - (d) give a true and fair view of the state of affairs of the fund.
- (2) The asset management company shall intimate the Board of the place where such books of account, records and documents are maintained.
- (3) The financial statements and accounts of the mutual fund schemes shall be prepared in accordance with Indian Accounting Standards (IND AS), as notified by the Companies (Indian Accounting Standards) Rules, 2015, as amended from time to time.
- (4) Where an inconsistency arises between the IND AS and these regulations or guidelines issued thereunder, the asset management companies shall follow the requirements specified under these regulations.
- (5) Every asset management company shall maintain and preserve its books of account, records and documents for a minimum period of eight years.
- (6) The asset management company shall follow the accounting policies and standards as specified in Eighth Schedule and as specified by the Board from time to time, in a fair and true manner so as to provide:
  - (a) appropriate details of the scheme-wise disposition of the assets of the fund at the relevant accounting date;
  - (b) performance of the scheme during that period; and
  - (c) information on distribution or accumulation of income accruing to the unitholders.

### 73. Financial year

- (1) The financial year for all the schemes shall end on March 31st of each year.
- (2) For a new scheme commenced during a financial year, the disclosure and reporting requirements shall apply from the date of its commencement upto March 31st of that financial year.

## CHAPTER XV INSPECTION AND AUDIT

### 74. Board's right to inspect and investigate

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

- (a) to verify that the books of account are being maintained by the mutual fund, the trustees and asset management company in the manner specified under these regulations;
- (b) to ascertain compliance with the Act and these regulations by the mutual fund, the trustees and asset management company;
- (c) to ascertain the adequacy of systems, procedures and safeguards followed by the mutual fund;
- (d) to investigate into the complaints received from the investors or any other person on matter having a bearing on the activities of the mutual funds, the trustees and the asset management company; or
- (e) to suo-motu examine whether the affairs of the mutual fund, the trustees or the asset management company are being conducted in a manner which is in the interest of the unitholders or the securities market.

### 75. Notice before inspection and investigation

- (1) Before ordering an inspection or investigation under regulation 74 the Board shall give notice of not less than ten calendar days' to the mutual fund or asset management company or trustees, as the case may be.
- (2) If the Board is satisfied that issuing notice specified in sub-regulation (1) may not be in the interest of unitholders, it may, by an order in writing, direct that such inspection or investigation be taken up without such notice.
- (3) During the inspection or investigation, the mutual fund, trustees or asset management company against whom the inspection or investigation is being carried out shall comply with all obligations specified under regulation 76.

### 76. Obligations on inspection and investigation

#### (1) General obligations:

##### (a) Duty to produce documents and furnish information:

- (i) It shall be the duty of the mutual fund, trustees or asset management company under inspection or investigation, and of every director, officer and employee thereof, to:
  - a. produce to the inspecting officer such books, accounts, records, including electronic records such as emails, applications and software used with respect

to affairs of the mutual funds, and other documents as are in their custody or control and which are relevant or necessary for the purposes of investigation or inspection; and

- b. furnish such statements, documents, information or other material relating to their activities which are relevant or necessary for the purposes of investigation or inspection.
- (ii) All documents and information under clause (i) shall be provided within a reasonable period as specified by the inspecting officer.

**(b) Access to premises and records:**

- (i) The mutual fund, trustees or asset management company shall grant the inspecting officer reasonable access to:
  - a. any premises occupied by them or by any other person on their behalf;
  - b. extend reasonable facilities for examining any books, records, documents and computer data in their possession or the possession of such other person which are relevant or necessary for the purposes of investigation or inspection; and
  - c. provide copies of documents or other materials deemed relevant by the inspecting officer for the purpose of inspection or investigation.

**(c) Examination and recording of statements:**

The inspecting officer may, during the course of an inspection or investigation examine or record the statements of any director, officer, or employee of the mutual fund, trustees or asset management company.

**(d) Duty to provide assistance:**

Every director, officer, or employee of the mutual fund, asset management company, or trustees shall render all reasonable assistance to the inspecting officer in connection with the inspection or investigation, as the inspecting officer may require.

**77. Submission of report to the Board**

- (1) Upon completion of the inspection or investigation, the inspecting officer shall submit a comprehensive report to the Board.
- (2) The inspecting officer shall also submit an interim report to the Board if directed to do so by the Board.

**78. Action on inspection or investigation report**

After consideration of the inspection or investigation report, the Board may take such action as deemed appropriate including but not limited to actions specified under Chapter V of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008.



**79. Auditor Appointment and Fees**

- (1) The Board may appoint an auditor to inspect or investigate the books of account or affairs of the mutual fund, trustees or asset management company.
- (2) An auditor appointed under sub-regulation (1) shall have the same powers as an inspecting officer appointed under regulation 74.
- (3) Where an auditor is appointed under sub-regulation (1), the obligation of the mutual fund, asset management company, trustee, and their employees specified under regulation 76 shall be applicable to the investigation conducted under this regulation.

**80. Payment of inspection expenses**

The Board may recover, from the mutual fund, trustees and asset management company, any expenses incurred for the purposes of investigation or inspection of the books of account, records and documents of the mutual fund, the trustees and the Asset Management Company. Such recoverable expenses shall include, but not limited to, fees paid to the auditors for such investigation or inspection.

**CHAPTER XVI****PROCEDURE FOR ACTION IN CASE OF DEFAULT****81. Liability for action in case of default**

An asset management company, mutual fund, trustee or sponsor which contravenes any of the provisions of the Act, rules or regulations framed thereunder or circulars and guidelines issued thereunder including:

- (a) failure to furnish any information or furnishes wrong information relating to its activity as a mutual fund as required under these regulations;
- (b) failure to furnish any returns as required under these regulations;
- (c) non co-operation in any inquiry or inspection conducted by the Board;
- (d) failure to comply with any directions of the Board issued under the provisions of the Act or these regulations;
- (e) failure to resolve the complaints of the investors or fails to give a satisfactory reply to the Board in this behalf;
- (f) indulge in unfair trade practices and/or insider trading in securities.

**Explanation:** For the purposes of this clause “unfair trade practices” has the same meaning as in the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations 2003;

For the purpose of this clause “insider trading” has the same meaning as in the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations 2015;

- (g) misconduct or improper or unbusinesslike or unprofessional conduct and fails to adhere to the Code of Conduct specified in the Fourth Schedule;
- (h) failure to carry out its obligations as specified in these regulations;
- (i) failure to comply with conditions for registration;
- (j) failure to maintain the net worth in accordance with the provisions of sub-regulation (1) of regulation 5 and sub-regulation (1) of regulation 57;
- (k) failure to pay any fees;
- (l) failure to ensure that the advertisement issued is not in contravention with the Advertisement Code specified in Fifth Schedule; or
- (m) failure to ensure that the valuation of securities is not in contravention of the Principles of Fair Valuation specified in Seventh Schedule;

shall be liable for action under the applicable provisions of the Act, rules, regulations, or circular framed thereunder including but not limited to suspension or cancellation of registration of an intermediary holding a certificate of registration, stopping subscription to existing schemes or suspension of launch of any new scheme of a mutual fund and forfeiture of the amount invested by an asset management company in any of its schemes as required under clause (a) of sub-regulation (3) of regulation 22.

## CHAPTER XVII

### POWER TO RELAX STRICT ENFORCEMENT OF THE REGULATIONS

#### **82. Exemption from enforcement of the regulations.**

- (1) The Board may, in the interest of unitholders or for the development of the securities market, relax the strict enforcement of any requirement of these regulations, if the Board is satisfied that:
  - (a) relaxation is procedural or technical in nature; or
  - (b) the non-compliance was caused due to factor beyond the control of the asset management company or mutual fund; or
  - (c) the requirement may cause undue hardship to unitholders.
- (2) For seeking relaxation under sub regulation (1), an application, giving details and the grounds on which such relaxation has been sought, shall be filed with the Board and such

application shall be accompanied by a non-refundable fee of rupees one lakh payable by way of direct credit into the bank account through NEFT/ RTGS/ IMPS or online payment using the SEBI Payment Gateway or any other mode as may be specified by the Board from time to time.

### **83. Relaxation from regulations for furthering innovation:**

- (1) The Board may exempt any person or class of persons from the operation of all or any of the provisions of these regulations for a period as may be specified but not exceeding twelve months, for furthering innovation relating to testing new products, processes, services, business models, etc. in live environment of regulatory sandbox in the securities markets.
- (2) Any exemption granted by the Board under sub-regulation (1) shall be subject to the applicant satisfying such conditions as may be specified by the Board including conditions to be complied with on a continuous basis.

**Explanation.** — For the purposes of these regulations, "regulatory sandbox" means a live testing environment where new products, processes, services, business models, etc. may be deployed on a limited set of eligible customers for a specified period of time, for furthering innovation in the securities market, subject to such conditions as may be specified by the Board.

## **CHAPTER XVIII MISCELLANEOUS**

### **84. Power of the Board to issue clarifications**

In order to remove any difficulties in the application or interpretation of these regulations, the Board may 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.

### **85. Repeal and saving**

- (1) The Securities & Exchange Board of India (Mutual Funds) Regulations, 1996 stand repealed from the date of coming into force of these regulations.
- (2) Notwithstanding such repeal:
  - (a) anything done or any action taken or purported to have been done or taken, including registration or approval granted, fees collected, scheme announced, registration or approval given, suspended or cancelled, any adjudication, proceedings, enquiry or

investigation commenced or show-cause notice issued under the repealed regulations prior to such repeal, shall be deemed to have been done or taken under the corresponding provisions of these regulations;

- (b) the previous operation of the repealed regulations or anything duly done or suffered thereunder, any right, privilege, obligation or liability acquired, accrued or incurred under the repealed regulations, any penalty, forfeiture or punishment incurred in respect of any contravention or offence committed against the repealed regulations, or any investigation, proceeding or remedy in respect of any such right, privilege, obligation, liability, penalty, forfeiture or punishment as aforesaid, shall remain unaffected as if the repealed regulations had never been repealed;
- (c) any application made to the Board under the said regulations and pending before it shall be dealt with under the corresponding provisions of these regulations; and
- (d) any infrastructure debt fund scheme launched by a mutual fund prior to date of notification of these regulations shall continue to be governed by provisions of Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 till such scheme is wound up.

**FIRST SCHEDULE****Securities and Exchange Board of India (Mutual Funds) Regulations, 2026****[Regulations 3(1)(a), 3(1)(e), 4(1)(d), 24(4)]****FEES**

- A. The fees payable by mutual funds, as provided in the below given table, shall be paid by way of direct credit into the bank account through NEFT/RTGS/IMPS or online payment using the SEBI Payment Gateway or any other mode as may be specified by the Board from time to time.

<b>Sr. No</b>	<b>Particulars</b>	<b>Fees/Charges*</b>
1	Application fees payable by mutual funds	Rupees five lakhs
2	Registration fees payable by mutual funds	Rupees twenty five lakhs
3	Annual fees payable by mutual funds on Average Asset Under Management (AAUM) up to rupees 10,000 crore as on 31 <sup>st</sup> March#	0.0015 per cent of the AAUM
4	Annual fees payable by mutual funds on part of AAUM as on 31 <sup>st</sup> March of above rupees 10,000 crore#	0.0010 per cent of the portion of AAUM in excess of rupees 10,000 crore.
5	Filing fees for offer documents and placement memoranda	0.005 per cent of the amount raised in the new fund offer or by way of private placement, as the case may be, subject to a minimum of rupees two lakhs and a maximum of rupees fifty lakhs.

#subject to a minimum of Rupees 2,50,000 and a maximum of Rupees 1,00,00,000

\*The fees/ charges mentioned above are excluding GST

**SECOND SCHEDULE****Securities and Exchange Board of India (Mutual Funds) Regulations, 2026****[Regulation 10(1)]****CONTENTS OF THE TRUST DEED**

- (1) The trust deed shall have a clause that trustees shall be responsible to comply with the provisions of this regulations.
- (2) The trust deed shall mention trusteeship fee, if any, payable to trustees.
- (3) The trust deed shall mention minimum number of trustees as four and that the removal of trustees would be subject to prior approval of the Board.
- (4) Trust deed shall mention that amendment to the trust deed shall be carried out:
  - (a) with the prior approval of the Board; and
  - (b) with prior approval of unitholders, except in case of change in trust deed consequential to change in control of asset management company as per clause (c) of Regulation 17 and in such other cases as may be specified by the Board from time to time.
- (5) The trust deed should provide the procedure that shall be followed for seeking approval of the unitholders under all such circumstances as are specified in the Regulations, including amendment to the trust deed.
- (6) The trust deed shall specify the quorum for a meeting of the trustees and shall ensure that the quorum of the meeting shall mandate presence of at least one independent trustee or independent director.
- (7) The trust deed shall empower trustees to meet at such frequency as required to ascertain orderly management of mutual fund schemes by asset management companies and compliances with this regulation but shall mandate minimum of one meeting of trustees in every quarter and at least four such meetings in every financial year.
- (8) The trust deed shall specify that the unitholders would have beneficial interest in the trust property to the extent of individual holding in respective schemes only.
- (9) Trust deed shall mandate trustees to comply with the following:
  - (a) A trustee, in carrying out his responsibilities as a member of the 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.
  - (b) A trustee shall not participate in the meetings of the trustee company when any decisions for investments in which he may be interested are taken.
- (10) Trust deed shall reproduce the duties/responsibilities and power of trustees as specified under regulation 12 and shall also include the following:
  - (a) The trustees would be responsible to act in the interest of the unitholders.
  - (b) 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.

- (c) The trustees shall be responsible to provide or cause to provide information to unitholders and Board as may be specified by the Board.
  - (d) The trustees shall be responsible 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 unitholders in accordance with the trust deed and Regulations.
  - (e) A trustee shall be responsible to furnish to the 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.
- (11) The trust deed shall specifically forbid mutual funds from:
- (a) 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; and
  - (b) making or guaranteeing loans or taking up any activity which is in contravention of the Regulations.

**THIRD SCHEDULE****Securities and Exchange Board of India (Mutual Funds) Regulations, 2026****[Regulation 12(1)(b)]****CONTENTS OF THE INVESTMENT MANAGEMENT AGREEMENT**

- (1) The Investment Management Agreement shall have a clause that asset management company shall be responsible to comply with the provisions of these regulations.
- (2) The Investment Management Agreement shall reproduce duties and responsibilities of the asset management company as mentioned under regulation 22 and shall also include that:
  - (a) the asset management company appointed by the trustees shall be responsible for floating schemes for the mutual fund, after approval of the same by the trustees, and for managing the funds mobilised under various schemes, in accordance with the provisions of the trust deed and Regulations;
  - (b) the asset management company shall ensure that no 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 or scheme particulars approved by the trustees and Board; and
  - (c) the asset management company shall be responsible to provide all information and submit reports to trustees and the Board concerning the operations of the various schemes of the mutual fund managed by the asset management company and on the functioning of the schemes of the mutual fund, at such intervals and in such a manner as may be specified by the trustees or the Board.
- (3) The Investment Management Agreement shall restrict asset management companies from:
  - (a) undertaking any other business activity other than management of mutual funds and activities permitted under clause (b) of regulation 21;
  - (b) acquiring any of the assets out of the trust property which involves the assumption of any liability which is unlimited or which may result in encumbrance of the trust property in any way;
  - (c) taking up any activity in contravention of the Regulations;
  - (d) using trust property towards 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, including those in relation to resolution of claims or disputes of investors in terms of regulation 71.
  - (e) making or guaranteeing loans or taking up any activity which is in contravention of the Regulations.
- (4) The Investment Management Agreement shall have a clause empowering trustees to dismiss the asset management company under the specific events, with the prior approval of the Board and in accordance with the Regulations.



**FOURTH SCHEDULE**

**Securities and Exchange Board of India (Mutual Funds) Regulations, 2026**

**[Regulations 12(3)(b), 12(4)(a), 22(8)(a)(ii), 62(4)(a), 63(8)(a)(iii), 81(g)]**

**CODE OF CONDUCT**

**PART – A**

**For the asset management company and trustees**

- (1) The trustees and the asset management company shall maintain high standards of integrity and fairness in all their dealings and in the conduct of their business.
- (2) Mutual funds schemes should not be organised, operated, managed or the portfolio of securities should not be selected, in the interest of sponsors, directors of asset management companies, directors of Trustee Company and their associates.
- (3) Mutual funds schemes should be organised, operated, managed and the portfolio of securities should be selected, to provide equitable and fair treatment to all classes of unitholders of the scheme. Decisions taken to favor or to benefit one set of investors over other shall not be considered as equitable and fair treatment to all class of unitholders.
- (4) The trustees and asset management companies must ensure that adequate, accurate, explicit and timely information about the investment policies, investment objectives, financial position and general affairs of the scheme is dissemination in a simple language to all unitholders of the scheme.
- (5) The trustees and asset management companies must avoid excessive concentration of business with broking firms, associates and also excessive holding of mutual fund units of a scheme among few investors.
- (6) The 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.
- (7) The trustees and asset management companies shall ensure that the assets and liabilities of each scheme are segregated and ring-fenced from other schemes of the mutual fund; and bank accounts and securities accounts of each scheme are segregated and ring-fenced.
- (8) The 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.
- (9) The trustees and asset management companies must not use any unethical means to sell, market or induce any investor to invest in their mutual fund schemes.
- (10) The 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.
- (11) 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.
- (12) The trustees and asset management company shall ensure that:

- (a) the sponsor of the mutual fund, the trustees or the asset management company or any of their employees do 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 case an employee of the sponsor, the trustees 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 advice.

### **PART – B**

#### **[Regulations 22(4)(a)(iv), 22(4)(b)(ii), 22(4)(c)(ii), 63(4)(a)(iv), 63(4)(b), 63(4)(c) and 81(g)]**

#### **For the Fund Managers and Dealers**

#### **(1) General:**

Dealers and Fund Managers shall:

- (a) ensure that investments are made in the interest of the unit holders;
- (b) strive for highest ethical and professional standards to enhance the reputation of the markets;
- (c) act honestly in dealings with other market participants;
- (d) act fairly and deal with market participants in a consistent and transparent manner;
- (e) act with integrity, particularly avoid questionable practices and behaviour;
- (f) abide by the Act, Rules, Regulations, Guidelines and Circulars governing the securities market and keep themselves up-to-date with the latest developments;
- (g) not indulge in any unethical business activities or professional misconduct involving dishonesty, fraud or deceit or commit any act that could damage the reputation of the organisation or the mutual fund industry;
- (h) identify existing or potential conflicts of interest as per their institutions policies and address the same;
- (i) not carry out any transaction on behalf of a fund with any counter party who is an associate of the sponsor/asset management company/Fund Manager/Dealer/Chief Executive Officer unless such transaction is carried out on arm's length basis on terms and at a price consistent with best execution standards and at a commission rate no higher than customary institutional rates;

For the purposes of this clause, the term associate shall have the following meaning:

- (i) in case of an asset management company and a sponsor; associate as defined in clause (d) of sub-regulation (1) of regulation (2); and

- (ii) in case of a Fund Manager/Dealer/Chief Executive Officer, it shall include their relatives or any entity upon whom the Fund Manager/Dealer/Chief Executive Officer could exercise control;
- (j) not offer or accept any inducement in connection with the affairs or business of managing the funds of unitholders which is likely to conflict with the duties owed to the unitholders;
- (k) disclose all interests in securities as required by all applicable statutory requirements; and
- (l) not receive any gift or entertainment which is not in adherence of the gift and entertainment policy of the asset management company framed in this regard.

**(2) Communication: Channels, disclosures and transparency:**

Dealers and Fund Managers shall:

- (a) always communicate in unambiguous, transparent, accurate and professional manner to promote effective communication that supports a transparent Market;
- (b) conduct all communication during market hours through recorded modes and channels except for face-to-face communication including out-of-office face-to-face interactions;
- (c) be encouraged to highlight and bring to the notice any instance of suspected malpractice or market misconduct to the appropriate risk, compliance and regulatory chains of command;
- (d) provide appropriate inputs to the valuation agencies or the valuation committee of the asset management company. Any material deviation in valuation, as defined by the asset management company, shall also be highlighted to the valuation agencies and valuation committee of the asset management company.
- (e) on their discretion may share views on market colour, general state of market or trends without disclosing confidential information;
- (f) not disclose any material non-public information that could affect the value of an investment to external parties and shall not act or cause others to act on such information; and
- (g) not intentionally disseminate false or misleading information with respect to the price or market for a security.

**(3) Execution Standards:**

(a) Fund Managers shall:

- (i) have an appropriate and adequate basis for investment decision and shall be responsible for investment in the funds managed by them;
- (ii) record in writing, the decision of buying or selling specific securities together with the detailed justifications for such decisions;

- (iii) not indulge in any act or practice which results in artificial window dressing of the NAV; and
  - (iv) not indulge in any act or practice which results in artificial increase or decrease of valuation and computation of Macaulay Duration of mutual fund schemes.
- (b) Dealers and Fund Managers shall:
- (i) adopt fair and prompt deal execution practices;
  - (ii) shall keep sanctity of securities market at the highest priority and shall not indulge in any manipulative trade practices.
  - (iii) fully document all correspondence and understanding during a deal with counterparties in the books of the fund if they have committed to the transactions on behalf of the mutual fund;
  - (iv) not favour one scheme over another for the purpose of security allocation, transfer of benefits (profit/loss) or any valuation gain/ loss including by way of inter scheme transfers or otherwise;
  - (v) not indulge in circular trading (by whatever name called) in any manner;
  - (vi) not enter or participate in transactions with the intent of disrupting the market, distorting the prices, or artificially inflating trading volumes;
  - (vii) not indulge in simultaneously buying and selling the same securities at off market prices in order to create false or misleading signals regarding the supply of, demand for, or market price of securities;
  - (viii) not manipulate the prices of infrequently traded securities including at monthly/quarterly /annual closing dates;
  - (ix) not enter into arrangements for sale or purchase of a security including a Government security where there is no change in beneficial interests or market risk or where the transfer of beneficial interest or market risk is only between parties who are acting in concert or collusion;
  - (x) not carry out or participate in a 'routing deal' i.e. purchasing a security at the instance of a third party who does not have funds to purchase the security, with an understanding to sell the same to the said third party at a later date at a predetermined price which may or may not be market related;
  - (xi) not put misleading bids and offers outside the market range as defined by their institution without an intention to trade;
  - (xii) not make frivolous quotations with an intent to mislead the market participants; and
  - (xiii) not sell securities to a third party at the month/quarter end with an understanding to purchase the same at a later date for any purpose including to meet periodic liquidity or to avoid month end disclosure.

**FIFTH SCHEDULE****Securities and Exchange Board of India (Mutual Funds) Regulations, 2026****[Regulation 28]****ADVERTISEMENT CODE**

- (a) Advertisements shall be accurate, true, fair, clear, complete, unambiguous and concise and shall not be misleading.
- (b) Advertisements shall not contain statements which are false, misleading, biased or deceptive, based on assumption/projections and shall not contain any testimonials or any ranking based on any criteria.
- (c) Advertisements shall not be so designed as likely to be misunderstood or likely to disguise the significance of any statement. Advertisements shall not contain statements which directly or by implication or by omission may mislead the investor.
- (d) Advertisements shall not carry any slogan that is exaggerated or unwarranted or slogan that is inconsistent with or unrelated to the nature and risk and return profile of the product.
- (e) No celebrities shall form part of the advertisement.
- (f) Advertisements shall not be so framed as to exploit the lack of experience or knowledge of the investors. Extensive use of technical or legal terminology or complex language and the inclusion of excessive details which may detract the investors should be avoided.
- (g) Advertisements shall contain information which is timely and consistent with the disclosures made in the Scheme Information Document, Statement of Additional Information and the Key Information Memorandum.
- (h) No advertisement shall directly or indirectly discredit other advertisements or make unfair comparisons.
- (i) Advertisements shall be accompanied by a standard warning in legible fonts which states 'Mutual Fund investments are subject to market risks, read all scheme related documents carefully.' No addition or deletion of words shall be made to the standard warning.
- (j) Advertisements in vernacular language(s) shall contain the standard warning as specified in clause (i) in the vernacular language.
- (k) In audio-visual media based advertisements, the standard warning in visual and accompanying voice over reiteration shall be audible in a clear and understandable manner. For example, in standard warning both the visual and the voice over reiteration containing fourteen (14) words running for at least five (5) seconds may be considered as clear and understandable.

**SIXTH SCHEDULE****Securities and Exchange Board of India (Mutual Funds), Regulations 2026****[Regulation 41(1)]****RESTRICTIONS ON INVESTMENTS**

1. Mutual fund scheme's investment in equity shares, equity related instruments and debt instruments shall only be made in listed or to be listed securities except that mutual fund can invest in:
  - (a) unlisted Government Securities and money market instruments other than commercial papers; and
  - (b) unlisted non-convertible debentures to the extent and in the manner as specified by the Board.
2. Mutual Fund Scheme's investment in unrated debt instruments shall be subject to such conditions as specified by the Board from time to time.
3. A scheme may invest in another scheme under the same mutual fund or any other mutual fund without charging any fees and such inter scheme investment shall be subject to limits as may be specified by the Board from time to time. This clause shall not apply to any fund of fund schemes.
4. No scheme of a mutual fund shall make any investment in any fund of funds scheme.
5. 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; and
  - 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 repurchases or redemptions, as disclosed in the offer document of fund of funds 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 relevant securities and in all cases of sale, deliver the securities:

**Provided** that a mutual fund may engage in short selling of securities in accordance with the framework relating to short selling and securities lending and borrowing specified by the Board:

**Provided further** that a mutual fund may enter into derivatives transactions in a recognized stock exchange, subject to the framework specified by the Board.

**Provided further** that sale of government security already contracted for purchase shall be permitted in accordance with the guidelines issued by the Reserve Bank of India in this regard.
7. Every mutual fund shall get the securities purchased or transferred in the name of the mutual fund on account of the concerned scheme except in respect of such securities as may be specified by the board from time to time.
8. Pending deployment of funds of a scheme in terms of investment objectives of the scheme, a mutual fund may invest them in short term deposits of schedule commercial banks, subject to such Guidelines as may be specified by the Board.
9. Investment by mutual fund schemes shall be subject to such prudential limits as prescribed by the Board from time to time.

**SEVENTH SCHEDULE****Securities and Exchange Board of India (Mutual Funds) Regulations, 2026****[ Regulation 22(9)(b)(i), 63(9)(b)(i)]****INVESTMENT VALUATION NORMS****Principles of Fair Valuation**

Mutual fund shall value its investments in accordance with the following overarching principles so as to ensure fair treatment to all investors including existing investors as well as investors seeking to purchase or redeem units of mutual funds in all schemes at all points of time:

- (a) The valuation of investments shall be based on the principles of fair valuation i.e. valuation shall be reflective of the realizable value of the securities/assets on a given date.
- (b) The valuation shall be done in good faith and in true and fair manner and in according to the valuation policies and procedures approved by the Board of the asset management company, in line with the guidelines specified by the Board.
- (c) Investment in new type of securities/assets by the mutual fund scheme shall be made only after the valuation methodologies for such securities are established and approved by the Board of the asset management company.
- (d) The valuation policies and procedures, as approved by the Board of the asset management company, shall include the following in order to ensure the appropriateness and accuracy of the methodologies used and its effective implementation in valuing the securities/assets:
  - i. detailed methodologies that will be used for valuing each type of securities/assets held by the mutual fund schemes;
  - ii. the process to deal with exceptional events where market quotations are no longer reliable for a particular security. Situation where these methods will be used, process and methodology and impact of implementation of these methods, if any;
  - iii. Periodicity of review of the valuation policies and procedures (at least once in a Financial Year) by the asset management company; and
  - iv. means to address conflict of interest.
- (e) The asset management company shall also have policies and procedures to detect and prevent incorrect valuation.
- (f) The valuation policies and procedures shall be regularly reviewed (at least once in a Financial Year) by an independent auditor to seek to ensure their continued appropriateness.
- (g) The Board of Trustee and the Board of asset management company shall be updated on findings of periodic review of valuation policies and procedures by asset management company and auditor, as mentioned in these regulations.
- (h) The valuation policy and procedures (with regard to valuation of each category of securities/assets where the scheme will invest, situation where these methods will be used, process and methodology and impact of implementation of these methods, if any) approved by the Board of the asset management company shall be disclosed in Statement of Additional

Information, on the website of the asset management company and at any other place where the Board may specify, to ensure transparency of valuation norms to be adopted by asset management company.

- (i) The responsibility of true and fairness of valuation of securities and correct NAV shall be of the asset management company, irrespective of disclosure of the approved valuation policies and procedures i.e. if the established policies and procedures of valuation do not result in fair/ appropriate valuation, the asset management company shall deviate from the established policies and procedures in order to value the assets/ securities at fair value:

**Provided** that any deviation from the disclosed valuation policy and procedures shall be after documentation of the rationale for deviation and with appropriate reporting to the board of directors of the trustee company and the board of directors of the asset management company and appropriate disclosures to investors.

- (j) A mutual fund may value its investments according to the Valuation Guidelines specified by the Board from time to time. In case of any conflict between the Principles of Fair Valuation as detailed above and Valuation Guidelines issued by the Board, the Principles of Fair Valuation shall prevail.



**EIGHTH SCHEDULE****Securities and Exchange Board of India****(Mutual Funds) Regulations, 2026****[ Regulations 72(6), 69(3)(c)]****ACCOUNTING POLICIES AND STANDARDS****For Investment in Securities**

- (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. 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 through Revenue Accounts. 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.
- (b) 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.
- (c) 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 up to the date of purchase must not be treated as a cost of purchase but must be debited 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 credited to Interest Recoverable Account.
- (d) In determining the holding cost of investments and the gains or loss on sale of investments, the “weighted average cost” method must be followed.
- (e) Transactions for purchase or sale of investments should 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 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.

- (g) Where income receivable on investments has accrued but has not been received or in case of debt securities classified as below investment grade, 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 credited 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:
  - (1) when units are sold and 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.
  - (2) The trustees may, if necessary, transfer a portion of the distributable profits to a dividend equalization reserve. Such a transfer would be independent of the requirement to operate an Equalization Account as provided in (i)(1).
- (j) The investments acquired or sold shall be accounted at transaction price excluding all transaction costs such as brokerage, stamp charges and any charge customarily included in the broker's contract note that are attributable to acquisition/ sale of investments.
- (k) Non-traded investments shall be valued in good faith in accordance with the norms specified in the Seventh Schedule.

**NINTH SCHEDULE****Securities and Exchange Board of India  
(Mutual Funds) Regulations, 2026****[Regulation 68]****ANNUAL REPORT****1. Annual Report**

The annual report shall contain—

- (i) Report of the trustee company 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 paragraph 5 of this Schedule;
- (iv) Brief statement of the trustee company 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) As the scheme invest in scrips or securities whose value can fluctuate, a statement on the following lines shall be provided:  
 "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 in securities; and
  - (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; and
- (vi) Statement on the following lines:  
 "On written request, present and prospective unitholders/investors can obtain a physical copy of the trust deed, the annual report and scheme related documents at a nominal price."

**2. Accounting Policies:** The accounting policies given in the Eighth Schedule shall be followed.

**3. Contents of Balance Sheet**

- i. The Balance Sheet shall give scheme wise particulars of its assets and liabilities in the format specified by the Board. It shall also disclose, inter alia, accounting policies relating to valuation of investments.
- ii. The aggregate market value of investments in securities 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 a recognised stock exchange, to be listed, and those which are unlisted.

- iii. The balance-sheet shall disclose under each type of investment(s) in securities, the aggregate market value or fair value of securities classified as below investment grade or default. A security shall be classified as below investment grade or default in the manner specified in guidelines issued by the Board.
- iv. The Balance Sheet shall disclose the per-unit net asset value (NAV) as at the end of the accounting year.
- v. 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.
- vi. 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;
  - c. a full list of investments of the scheme shall be made available for inspection with the asset management company;
  - d. the basis on which management fees have been paid to the asset management company and the computation thereof;
  - e. if brokerage, distribution commission, 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 cost 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;
  - f. aggregate value of purchases and sales of investments during the year and expressed as a percentage of average net asset;
  - g. In case of securities, excluding debt securities, where the non-traded investments which have been valued “in good faith” exceed 5% of the net assets at the end of the year, the aggregate value of such investments along with percentage to net assets. In case of debt securities which have been valued at a price other than the price given by the Independent Valuation Agencies at the end of year, the aggregate value of such securities and percentage to net assets; and
  - h. 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:

	<i>No. of units</i>	<i>(Rs. in lakhs)</i>
Balance of unit capital at the beginning of the reporting period	12,50,00,000	12,500.00
New fund/ plan offer during period, Capital issued during period (including dividend reinvestment) etc.	1,27,50,000	1,275.00
Redemptions during the period	(15,40,000)	(154.00)
Balance of unit capital at the end of the period	13,62,10,000	13,621.00

Note: Provide break-up of unit capital plan/option wise.

- i. the name of the company including 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;
- j. The total income of the scheme shall include unrealised depreciation or appreciation on investment.

	<i>Rs. in lakh</i>	<i>Rs. in lakh</i>
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 unitholders	80	
Transfer to reserve	5	(85)
		20

- vii. 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 its relevant asset.

- viii. Disclosure shall be made of all contingent liabilities, uncalled liability on partly paid shares and other commitments with specifying details.

#### **4. Contents of Revenue Account**

- (i) The Revenue Account shall give scheme wise particulars of the income, expenditure and surplus of the mutual fund in the format specified by the Board.
- (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) The following disclosures shall also be made in the revenue account:
  - (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 gross basis;
  - (c) custodian and registrar fees; and
  - (d) total income and expenditure expressed as a percentage of average net assets, calculated on a daily basis.

#### **5. Auditor's Report**

- (i) All mutual funds shall be required to get their accounts audited in terms of a provision of the trust deeds.
- (ii) The auditor shall report to the trustee company and not to the unit holders.
- (iii) The Auditor's Report shall form a part of the Annual Report.
- (iv) 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; and
  - 2) the Balance Sheet and the Revenue Account are in agreement with the books of account of the fund.
- (v) The auditor shall give his opinion as to whether:
  - 1) the Balance Sheet gives a true and fair view of the scheme wise 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 scheme wise 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 scheme wise per unit statistics for the past 3 years:
  - (a) net assets value, per unit at plan/option level;
  - (b) gross income per-unit broken up into the following components:

- (i) income other than profit(loss) on sale of investment, per unit;
- (ii) income from profit(loss) on inter scheme sales/transfer of investment, per unit;
- (iii) income from profit(loss) on sale of investment to third party, per unit;
- (iv) transfer to revenue account from past year's reserve, per unit.
- (v) gross income - sum of b(i), (ii) and (iii)
- (c) aggregate of expenses, write off, amortisation and charges, per unit;
- (d) net income, per unit (gross income – aggregate of expenses);
- (e) unrealised appreciation/depreciation in value of investments, per unit;
- (f) if the units are traded, the highest and the lowest prices per unit during the year;
- (g) ratio of total expenses to average net assets by percentage;
- (h) 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) the highest and the lowest NAV per unit during the year at plan/option level;
- (j) face value per unit;
- (k) total unit capital (in Rupees);
- (l) average net asset (in Rupees);
- (m) no. of days during the period; and
- (n) Weighted average Price Earnings Ratio of equity/equity related instruments held as at end of year/period.

AMIT PRADHAN, Executive Director

[ADVT.-III/4/Exty./621/2025-26]