

FAQs for Mutual Fund Intermediaries

DISCLAIMER • This is not a legal document. • These FAQs are prepared with a view to guide market participants on SEBI (Mutual Fund) Regulations, 1996 ("the Regulations"). For full particulars of laws governing the Mutual Funds (MF), please refer to the Acts/Regulations/Guidelines/Circulars etc. appearing under the Legal Framework Section of SEBI website i.e. www.sebi.gov.in. • The contents of these FAQs are updated as on March 31, 2023.

I. FAQs for new Mutual Fund applicants on the procedure for registering a mutual fund with SEBI

(1) Who is a sponsor?

A "sponsor" means any person who, acting individually or in concert with another body corporate, establishes a mutual fund; It may be noted here that as per the proviso to Reg. 7 (c) of SEBI (MF) Regulations [hereinafter referred to as the SEBI (MF) Regulations)], any person who holds 40% or more of the net worth of an asset management company shall be deemed to be a sponsor

(2) Who can apply for registration of a Mutual Fund?

Applicants fulfilling the eligibility criteria for grant of a certificate of registration as per Regulation 7 of SEBI (MF) Regulations may apply to SEBI for grant of registration of a mutual fund.

Regulation 7 of SEBI (MF) Regulations prescribes the following eligibility criteria:

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

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

1. Be carrying on business in financial services for a period of not less than five years; and
2. Ensure that the net worth is positive in all the immediately preceding five years; and
3. Ensure that the net worth is more than the proposed capital contribution of the sponsor in the asset management company ensure that in case of change in control of the existing asset management company due to acquisition of shares, the networth of the sponsor is more than the aggregate par value or market value of the shares so acquired, whichever is higher; and
4. The sponsor has profits after providing for depreciation, interest and tax in three out of the immediately preceding five years, including the fifth year.

- b) The applicant is a fit and proper person.

- c) In the case of an existing mutual fund, such fund is in the form of a trust and the trust deed has been approved by the Board;

- d) The sponsor has contributed or contributes atleast 40% to the net worth of the asset management company;

Provided that any person who holds 40% or more of the net worth of an asset management company shall be deemed to be a sponsor and will be required to fulfil the eligibility criteria specified in these regulations.

- e) The sponsor or any of its directors or the principle officer to be employed by the mutual fund should not have been guilty of fraud or has not been convicted of an offence involving moral turpitude or has not been found guilty of any economic offence.

- f) Appointment of trustees to act as trustees for the mutual fund in accordance with the provisions of the regulations;

- g) Appointment of asset management company to manage the mutual fund and operate the scheme of such funds in accordance with the provisions of these regulations;
- h) Appointment of custodian in order to keep custody of the securities or gold and gold related instrument or other assets of the mutual fund held in terms of these regulations, and provide such other custodial services as may be authorised by the trustees.

While applying, the applicant must ensure that the main objects of the memorandum of the sponsor company permit it to carry on mutual fund activities.

(3) How to apply for registration of a Mutual Fund?

An applicant proposing to sponsor a mutual fund (MF) is required to submit the application in Form A [first schedule of the SEBI (MF) Regulations] along with supporting documents and an application fees of INR 5 lakh (plus GST @ 18%). The application should be filed online at <https://siportal.sebi.gov.in> as well as in physical format with SEBI.

(4) What supporting information and documents are required to be submitted by the applicant while applying for mutual fund registration?

An applicant should submit the following additional information for the sponsor as well as for other shareholders of the proposed AMC:

A) Basic details:

1. A brief write-up on the main activities of the applicant.
2. Type of holding of the applicant (ex: Sole proprietorship, registered partnership, LLP, company etc)
3. Place of Registration of the applicant.
4. Listing status of the sponsor and its group/associate companies
5. Rationale how the applicant meets the criteria of five years track record in the field of financial services.
6. Shareholding pattern of the applicant entity and any other controlling entities (holding more than 10%) of the applicant as on latest date.
7. A notarized declaration w.r.t ultimate beneficial ownership of the applicant giving the list of ultimate beneficial owners (UBO) of the applicant entity. Criteria to define "ultimate beneficial owners" (UBO) can be considered as those entities or persons exercising ultimate effective control over the applicant, through a chain of control or ownership. For this purpose, "control" is defined as per the Regulation 2(1)(g) of SEBI (MF) Regulations.
8. The name(s) and identity proof (PAN) of following person(s): (Note: in case of foreign entities, instead of PAN, please provide similar other documents)
 - a. Applicant
 - b. Principal officer, Directors or Managing Partners, Compliance officer, Key Personnel of the applicant

- c. Promoters or persons holding controlling interest (directly or indirectly) or Person exercising control over the applicant/intermediary (directly or indirectly)
- d. In case of an unlisted applicant, any person holding 20% or more voting right
- e. Ultimate Beneficial Owner

B) Registration and other details

- 9. List of names of the associate organizations/group companies/subsidiaries, etc. registered with SEBI in any capacity along with their respective SEBI registration number.
- 10. Details of registration of the sponsor/its associate/group companies that are registered with RBI, IRDAI, NHB, PFRDA or IFSCA as a regulated financial entity..
- 11. Details of registration of the sponsor/its associate/group companies that are registered with any overseas financial regulator.
- 12. Approval , if any, required from RBI IRDAI, NHB, PFRDA, IFSCA, CCI or any other Indian or overseas regulator for the purpose of sponsoring a mutual fund w.r.t restrictions levied in their respective regulation.

C) Financial details and documents:

- 13. Net worth and PAT certificates for the sponsor duly certified by a Chartered Accountant for the last 5 financial years;
- 14. Details about the proposed contribution to the proposed AMC and Trustee Company;
- 15. Business plan for the proposed AMC.
- 16. Projected abridged income statement, cash flow statement and balance sheet of the proposed AMC and business methodology for initial five years.

D) Details and declarations w.r.t. regulatory non-compliance:

- 17. Details of any instances of violation of or non-adherence to any securities related regulations, details of any action that has been taken against the sponsor or any of its associate/group companies in this regard by a regulatory agency in India or abroad along with the following information:
 - a) Top ten monetary penalties in case of foreign entities and all monetary penalties in case of Indian entities, imposed against the sponsor or any associate of the sponsor (for irregularities/ violations in the financial services sector or for defaults in respect of shareholders/ debenture holders and depositors, by any financial regulatory body or government authority or settlement arrived with any financial regulatory body during the last five years and details thereof. Penalties awarded for economic offences may be disclosed only in case of sponsor.
 - b) Details of all cases of suspensions and cancellation of certificate of registration (for irregularities/ violations in financial services sector or for defaults in respect of shareholders, debenture holders and depositors) of the sponsor or any associate of the sponsor shall be disclosed for the last ten years.

c) Disclosures on penalties and action taken as per (a) and (b) above against foreign entities may be limited to the jurisdiction of the country where the principal activities (in terms of income/ revenue) of the sponsors/ associate companies are carried out or where the headquarter is situated.

18. Details of disciplinary action taken by RBI/other Regulators against the sponsor or any of its group/associate companies and whether there is/ has been any default in repayment of deposits by the sponsor or any of its group / associate companies.

19. Confirmation on whether any of the directors or employees of the sponsor or its group / associate companies were ever associated with any organisation as a director or an employee against whom SEBI had initiated action of suspension or cancellation of certificate of registration or initiated any other action under the provisions of SEBI Act or launched any prosecution for acts committed during their association. If so, details in that regard.

20. Declaration that no regulatory action has been taken/ pending against the sponsor, its associate/ group entities by any foreign financial market regulator.

21. Declaration in terms of Regulation 7(d) SEBI (MF) Regulations that the sponsor company or any of its directors have not been found guilty of fraud or have not been convicted of an offence involving moral turpitude or have not been found guilty of any economic offence. In case there has been any such cases, full details in that regard.

E) Other Undertakings and declarations:

22. Notarized affidavit on a non-judicial stamp paper of appropriate amount by the sponsor undertaking to provide additional capital to the AMC, if required, till its operations breakeven, to protect the interest of the unitholders.

23. Notarized affidavits on a non-judicial stamp paper of appropriate amount by all of the persons mentioned at para 8 above giving Fit and Proper declaration as per Schedule II of SEBI (Intermediaries) Regulations, 2008.

24. Notarized affidavit on a non-judicial stamp paper of appropriate amount by applicant declaring compliance with-

- a) Regulation 7 A of SEBI (MF) Regulations
- b) Regulation 7 B of SEBI (MF) Regulations

25. Notarized affidavit on a non-judicial stamp paper of appropriate amount by the directors of the applicant giving declaration regarding whether the directors:

- have been convicted by a court for any criminal offence or any other offence involving moral turpitude or fraud or have been found guilty of any economic offence at any time in the past?
- have been an employee or director or a person who exercise/exercised management or policy control of an organization which has been convicted of any criminal offence or any criminal suit filed during their association with such organization?
- have been found guilty by any court / regulatory body / self-regulatory organization / stock exchange for any offence related to securities market in India or abroad?
- have been associated with any organization as a director or an employee against which SEBI had initiated action of suspension or cancellation of certificate of

registration or initiated action under Section 11(B) of SEBI Act or any prosecution launched for acts committed during their association?

26. Notarized affidavit on a non-judicial stamp paper of appropriate amount by Key Personnel of the applicant giving declaration regarding whether the Key Personnel:

- have been convicted by a court for any criminal offence?;
- have been convicted by any court of law or authorised body for any offence related to the securities industry?;
- the key personnel or any organisation over which they exercised management or policy control have ever been convicted of any criminal offence?;
- have any proceedings against them or any organisation in which they exercised management or policy control?;
- have been accused of or convicted for any offence by a regulator of the securities or financial industry, a self-regulatory organisation, stock exchange in India or from any foreign country?

(5) Whether SEBI conducts any onsite due diligence in the process of registration?

SEBI conducts site visit at various stages of mutual fund registration process. These broadly include:

A. Onsite Due Diligence of the sponsor/applicant:

SEBI conducts on-site due-diligence of the existing businesses of the sponsor to:

1. Examine the existing infrastructure of the sponsor;
2. Study the track record of complaints and assess investor grievance handling;
3. Interact with the Key Personnel to understand the details regarding the areas of business, concerned regulatory environment, etc.
4. Understand the philosophy as well as Infrastructure governing the client servicing;
5. Study the compliance orientation including compliance philosophy & practice;
6. Study the organization reporting structure adopted by the applicant for ensuring the same standard of compliance across the subsidiaries.

B. Onsite infrastructure review of the AMC

After setting up of the AMC, SEBI conducts a site visit and reviews in detail the infrastructure of the AMC to ensure whether the AMC has the requisite infrastructure to run a mutual fund. The objective is to study and review the existing physical infrastructure of the AMC, its systems support in terms of hardware and software, its manpower adequacy, investor servicing arrangements, internal systems and control procedures developed to check insider trading and front running and its compliance manual.

(6) Is there any timeline to be adhered to by the applicant in the process of registration of a mutual fund?

At any stage of registration, the applicant must provide the required information to SEBI and undertake necessary steps within the timeline specified in the communication from SEBI, failing which the case may be considered as closed from SEBI.

(7) What are the steps that must be taken by the applicant after they are found eligible by SEBI to sponsor a mutual Fund?

The applicant is required to undertake the following steps within the stipulated time from the date of communication of eligibility status by SEBI, failing which the applicant will be required to submit a fresh application for registration:

- A. Submit latest Annual Report of the sponsor and the condensed financial information as per Form A as on the fulfillment of the aforesaid requirements. The applicant must also confirm compliance with Regulation 7(a) (ii)-(iv) of SEBI (MF) Regulations.
- B. Incorporate the AMC and Trustee Company/Board of trustees and submit two copies of Memorandum and Articles of Association of the AMC and the Trustee Company to SEBI.
- C. Submit a certificate from a Chartered Accountant certifying that:
 - The sponsor has contributed at least 40% to the networth of the AMC [Regulation 7(c) of SEBI (MF) Regulations];
 - The AMC has a networth of not less than INR 50 Crores (500 million) as required under Regulation 21(1)(f) of SEBI (MF) Regulations (Refer FAQ No. 9 for Networth Format).
- D. Submit Form C and Form D, providing details of Trustee Company and AMC, as given in First Schedule of SEBI (MF) Regulations.
- E. File executed copies of Trust Deed and Investment Management Agreement and a certificate stating that:
 - a. The trust deed contains no clause, which has the effect of:
 - i. Limiting or extinguishing the obligations and liabilities of the trust in relation to any mutual fund or the unitholders.
 - ii. Indemnifying the trustees or the asset management company for loss or damage caused to the unitholders by their acts of negligence or acts of commissions or omissions.
 - b. There is no clause in the Trust Deed which is in violation of SEBI Act, 1992 and the SEBI (MF) Regulations as amended from time to time.
 - c. All clauses as mentioned in third schedule of SEBI (MF) Regulations and such other clauses, which are necessary for safeguarding the interest of the unitholders have been incorporated in the trust deed.
 - d. The following clause has been incorporated in the trust deed.

“Notwithstanding anything contained in the clause of the trust deed, the provisions of SEBI (MF) Regulations and guidelines issued there under from time to time shall be applicable and would automatically override the provisions of trust deed.”
- F. Submit bio - data of the proposed directors of the Trustee Company and the AMC in the prescribed format along with signed, stamped and notarized declarations by the directors.
- G. Submit explanation to the effect that the directors of the AMC are persons having adequate experience in finance and financial services related field [Regulation 21(1) (b)] of SEBI (MF) Regulations].
- H. Submit declarations by way of duly notarised affidavit on a non-judicial stamp paper of appropriate amount to the effect that:

- i. The trustees and the directors of the AMC have not been found guilty of moral turpitude or convicted of any economic offence or violation of any securities laws;
 - ii. The key personnel of the AMC have not been found guilty of moral turpitude or convicted of any economic offence or violation of any securities laws or worked for any AMC or mutual fund or any intermediary during the period which its registration has been suspended or cancelled at any time by SEBI.
 - iii. The Chairman/Director of the proposed AMC is not a Trustee of any Mutual Fund.
- I. Set up of infrastructure/operations by the applicant and submit detailed note on the infrastructure facilities available with the AMC. (Refer succeeding FAQ)
- J. Any other step as may be advised by SEBI.

(8) What details are required in the note on infrastructure facilities of the AMC sent to SEBI by the applicant?

The detailed note on the infrastructure facilities available with the AMC that is submitted to SEBI must contain the following information:

1. Details of the office premises and address.
2. Organization chart of the AMC, clearly specifying the responsibilities of various personnel.
3. Profile of the key personnel including the fund managers and equity research personnel.
4. Justification of adequacy of personnel in fund management, equity research and other operational areas considering the expected size of mutual fund, inter alia, indicating at what stage the number of key personnel will be reviewed.
5. Systems support in terms of hardware and software.
6. Arrangement made for investor services.
7. Establishing the financial viability of sponsoring a Mutual Fund giving details of expected size of mutual fund over a period of time,
8. Internal systems and control procedures developed to check insider trading and front running
9. Size of funds which the AMC feels competent to manage and the expertise available with the sponsor/AMC etc.
10. Whether the compliance manual has been prepared to ensure that the provisions of SEBI (MF) Regulations and Guidelines are complied with. (Guidelines issued to mutual funds are available on SEBI web site).
11. Submission of Form C and Form D, providing details of Trustee Company and AMC, as given in First Schedule of SEBI (MF) Regulations.
12. Bio-data of the directors of the trustee company and the AMC in the prescribed format (Please refer to SEBI circular dated December 20, 2001 and August 29, 2002 available on SEBI website).
13. Bio data of key personnel in hard and soft copies (Please refer to SEBI circular dated April 28, 1997)

Note: "Key Personnel" means:

"Chief Executive Officer (CEO), Chief Investment Officer (CIO), Chief Risk Officer (CRO), Chief Information Security Officer (CISO), Chief Operation Officer (COO), Fund Manager(s), Compliance Officer, Sales Head, Investor Relation Officer(s) (IRO), heads of other departments, Dealer(s) of the AMC and such other persons as deemed fit and identified as such by the AMC and the Trustees."

14. Confirmation by the AMC with respect to compliance with the requirements laid down in SEBI Circular dated November 30, 2017.
15. Any other information relevant for application for registration.

II. FAQs for registered Mutual Funds

(1) Is it compulsory to launch a mutual fund scheme after grant of mutual fund registration by SEBI?

A Mutual Fund scheme should be launched within six (6) months from the date of registration of a mutual fund failing which the registration granted would be treated as cancelled.

(2) What is the filing fee for an offer document?

The filing fee for an offer document is 0.005% 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 INR 2 lakh and a maximum of INR 50 lakh.

(3) What is the timeline to respond to SEBI's queries during SID processing?

An AMC is required to respond to SEBI's queries seeking clarification on draft SID within such time as may be mentioned in the email received from SEBI.

(4) What is the annual fee payable by a mutual fund?

Mutual funds are required to pay before the 15th April each year an annual fee for every financial year from the year following the year of registration as specified under:

Average Assets under Management (AAUM) as on 31 March	Annual Fee
AAUM up to INR 10,000 crore	0.0015% of the AAUM
Part of AAUM above INR 10, 000 crore	0.0010% of the portion of AAUM in excess of INR 10,000 crore

subject to a minimum of INR 2, 50,000 and a Maximum of INR 1, 00, 00,000.

(5) Is GST applicable on fees paid to SEBI by Mutual Funds/ Mutual Fund applicants?

With effect from July 18, 2022, GST is applicable on the fees and other regulatory income of SEBI received for services by SEBI under the GST law.

Mutual funds are advised to include GST at 18% (eighteen percent) for all heads of fees made by way of remittance to SEBI virtual account or any other means.

The below format of remittance particulars maybe provided to SEBI by email at mfddata@sebi.gov.in.

Name of the remitter	
Date of remittance	

Total Amount remitted	
GST Amount	
GST Calculation (in %)	
GST Registration No.	
Name of the Origin Bank	
UTR No. / Ref No.	
Purpose of remittance	

(6) What are the limitations on the fees and expenses that can be charged to a scheme?

- A. The AMC may charge the scheme with investment and advisory fees which is to be fully disclosed in the offer document.
- B. In addition to the fees mentioned above, the asset management company may charge the scheme with the following recurring expenses, including:
- a) marketing and selling expenses including agents' commission, if any;
 - b) brokerage and transaction cost;
 - 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 dividend/redemption cheques and warrants;
 - j) insurance premium paid by the fund;
 - k) winding up costs for terminating a fund or a scheme;
 - l) costs of statutory advertisements;
 - m) in case of a gold exchange traded fund scheme, recurring expenses incurred towards storage and handling of gold;
 - n) in case of a silver exchange traded fund scheme, recurring expenses incurred towards storage and handling of silver
 - o) in case of a capital oriented scheme, rating fees;
 - p) in case of a real estate MF scheme, insurance premium and costs of maintenance of the real estate assets (excluding costs of development of such assets) over and above the expenses specified in regulation 52 to the extent disclosed in the offer document;
 - q) listing fees, in case of schemes listed on a recognised stock exchange;
 - r) in case of schemes investing in exchange traded commodity derivatives, recurring expenses incurred towards storage and handling of the underlying goods, due to physical settlement of such contracts
 - s) Such other costs as may be approved by the Board.

Any expense other than those specified above should be borne by the AMC or trustee or sponsors.

In case of a scheme other than an index fund or an exchange traded fund, where, as per the SID, the scheme will invest a minimum of 65% of its net assets in equity and equity related instruments, the scheme will be considered as equity oriented scheme for the purpose of limits of total expense ratio as specified in these regulations.

C. The total expense ratio (TER) of the scheme excluding issue or redemption expenses, whether initially borne by the MF or by the AMC, but including the investment management and advisory fee is subject to the following limits:

- a) in case of a fund of funds scheme,
- (i) investing in liquid schemes, index fund scheme and exchange traded funds, the TER of the scheme including weighted average of charges levied by the underlying schemes should not exceed 1.00% of the daily net assets of the scheme,
 - (ii) investing a minimum of 65% of AUM in equity oriented schemes as per SID, the total expense ratio of the scheme including weighted average of the TER levied by the underlying scheme(s) should not exceed 2.25 % of the daily net assets of the scheme.
 - (iii) investing in schemes other than as specified in clause (a)(i) and (a)(ii) above, the TER of the scheme including weighted average of the TER levied by the underlying scheme(s) should not exceed 2.00% of the daily net assets of the scheme:

TER to be charged over and above the weighted average of the TER of the underlying scheme should not exceed two times the weighted average of the total expense ratio levied by the underlying scheme(s), subject to the overall ceilings as stated at a(i), a(ii) and a(iii) above.

- b) in case of an index fund scheme or exchange traded fund, the TER of the scheme including the investment and advisory fees should not exceed 1.0% of the daily net assets;
- c) In case of open ended schemes other than as specified in clause (a) and (b) above, the TER of the scheme should not exceed the following limits :-

AUM Slab (in INR Crore)	TER limits for equity oriented schemes	TER limits for other than equity oriented schemes
on the first Rs. 500 crores of the daily net assets	2.25%	2.00%
on the next Rs. 250 crores of the daily net assets	2.00%	1.75%
on the next Rs. 1250 crores of the daily net assets	1.75%	1.50%
on the next Rs. 3000	1.60%	1.35%

crores of the daily net assets		
on the next Rs. 5000 crores of the daily net assets	1.50%	1.25%
on the next Rs. 40,000 crores of the daily net assets	TER reduction of 0.05% for every increase of Rs. 5000 crores of daily net assets or part thereof	
On the balance of the assets	1.05%	0.80%

- d) In case of close ended and interval schemes,
- (i) the TER of equity oriented scheme(s) should not exceed 1.25% of the daily net assets of the scheme.
 - (ii) the TER of close ended and interval scheme(s) other than schemes specified in clause d (i) above should not exceed 1.00 % of the daily net assets of the scheme

In addition to the limits specified above, the following costs or expenses may be charged to the scheme, namely:

- a) brokerage and transaction costs which are incurred for the purpose of execution of trade and is included in the cost of investment, not exceeding 0.12% of trade value in case of cash market transactions and 0.05% of trade value in case of derivatives transactions;
- b) expenses not exceeding of 0.30% of daily net assets, if the new inflows from such cities as specified by the Board from time to time are at least:
 - i. 30% of gross new inflows in the scheme, or;
 - ii. 15% of the average AUM (year to date) of the scheme, whichever is higher:

If inflows from such cities are less than the higher of sub-clause (i) or sub-clause (ii), such expenses on daily net assets of the scheme should be charged on proportionate basis.

Expenses charged under this clause are required to be utilised for distribution expenses incurred for bringing inflows from such cities.

The amount incurred as expense on account of inflows from such cities are required to be credited back to the scheme in case the said inflows are redeemed within a period of one year from the date of investment.

- c) Additional expenses, incurred towards different heads mentioned under B and C above, not exceeding 0.05% of daily net assets of the scheme or as specified by the Board.

Any expenditure in excess of the limits specified above is required to be borne by the AMC or by the trustee or sponsors.

(7) Is GST included in the limit of expenses?

AMC(s) can charge GST, as per applicable taxation laws, to the scheme(s) within the limits prescribed under the Regulations. While GST on brokerage and transaction cost paid for execution of trade (if any) and GST on other than investment and advisory fees is within the limit prescribed under the Regulations, MFs/AMCs may charge GST on investment and advisory fees to the scheme in addition to the maximum limit of TER as prescribed in the Regulations.

(8) What is the duration of validity of SEBI observations on SID?

The scheme is required to be launched within six months from the date of the issuance of final observations from SEBI. If the AMC intends to launch the scheme at a date later than six months, it would be required to refile the SID with SEBI along with filing fees.

(9) Is the risk disclaimer (viz. *'Mutual Fund investments are subject to market risks, read all scheme related documents carefully'*) mandatory in corporate advertisements that are a form of brand promotion?

Yes, the requirement of 'risk disclaimer' is applicable to all communications falling within the definition of advertisement.

However, an 'advertisement' means all forms of communication issued by or on behalf of the AMC/mutual fund that may *influence investment decisions* of any investor/prospective investors. Hence, corporate advertisements and program sponsorships that do not solicit investments in MF / its schemes or influence investment decisions in a MF scheme, but are merely a branding exercise of a Mutual Fund do not require risk disclaimer.

(10) What are the regulatory requirements for Change in Control of a Mutual Fund?

➤ Regulation 22(e) of SEBI (MF) Regulations

According to Regulation 22(e) of SEBI (MF) Regulations, no change in control of the asset management company can be made unless:-

1. prior approval of the trustees and the Board (i.e. SEBI) is obtained;
2. a written communication about the proposed change is sent to each unitholder (for those unitholders whose e-mail IDs are registered with the mutual funds, the communication can be sent through e-mail) and an advertisement is given in one English daily newspaper having nationwide circulation and in a newspaper published in the language of the region where the Head Office of the mutual fund is situated; and
3. The unitholders are given an option to exit on the prevailing Net Asset Value (NAV) without any exit load within a time period not less than 30 calendar days from the date of communication

➤ Para 3.3 of SEBI circular dated March 04, 2021: Undertakings by new trustees/Sponsors

In case of new sponsor(s) or in case of taking over of the schemes by an existing mutual fund, the undertakings on the following lines are required to be given to the Board and to the unitholders :

1. Taking full responsibility of the management and the administration of the schemes including the matters relating to the reconciliation of accounts (as if the schemes had been floated by the new trustees on the date of taking over).
2. Assumption of the trusteeship of the assets and liabilities of the schemes including outstanding borrowings, unclaimed dividends and unclaimed redemptions, if any.
3. Assuming all responsibilities and obligations relating to the investor grievances, if any, in respect of the schemes taken over, in accordance with and pursuant to the SEBI (MF) Regulations and various circulars issued thereunder.

(11) What disclosures are required to be given in the letter to unitholders while communicating about change in control of the Mutual Fund?

The letter to the unitholders should include the following information –

1. In case of new sponsor, the activities of the new sponsor and its financial track record and performance as prescribed in the standard offer document;
2. In case of taking over of the schemes by an existing mutual fund registered with SEBI, the draft letter should also include the condensed financial information of all the schemes in the format prescribed in the standard offer document;
3. The amount of unclaimed redemption and dividend and also the procedure for claiming such amount by the unitholders.
4. The requisite undertakings as prescribed by SEBI circular no. SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021.
5. Rationale, expected benefits and effects of the proposed change/s.
6. Requisite approvals for the Proposed Transaction.
7. Disclosure of Option for exit to the unit holders without exit load for 30 days and the procedure for exercising the exit option along with the tax consequences of redemption during the Exit Option period.
8. Disclosure that the expenses related to the proposed change in control and other consequential changes will NOT be charged to the unit holders of the schemes of the Mutual Fund.

(12) Does Change in Control of the Mutual Fund require any revision in the Standard Offer Documents?

The information given in all the offer documents of existing schemes has to be revised and updated pursuant to the change in control of the mutual fund. Such addendum should also be filed with SEBI, as required under the SEBI (MF) Regulations, circulars and guidelines issued thereunder.

(13) What is the procedure for Change in control of the mutual fund involving scheme of arrangement under Companies Act, 2013?

Application for approval of change in control of an AMC involving scheme of arrangement which needs sanction of National Company Law Tribunal (“NCLT”) in terms of the provisions of the Companies Act, 2013 is required to be filed with SEBI prior to filing the application with the NCLT

Upon being satisfied with compliance of the applicable regulatory requirements, an in-principle approval would be granted. The validity of such in-principle approval is 3 months from the date of issuance, within which the relevant application should be made to NCLT.

Within fifteen (15) days from the date of order of NCLT, applicant should submit the following documents to SEBI for final approval:

- a. Application for the final approval;
- b. Copy of the NCLT Order approving the scheme;
- c. Copy of the approved scheme;
- d. Statement explaining modifications, if any, in the approved scheme vis-à-vis the draft scheme and the reasons for the same; and
- e. Details of compliance with the conditions/ observations mentioned in the in-principle approval provided by SEBI.

SEBI (MUTUAL FUNDS) REGULATIONS, 1996

“SEBI (MF) Regulations are available on the SEBI website: www.sebi.gov.in under the heading Legal > Regulations > Securities and Exchange Board of India (Mutual Funds) Regulations, 1996.

MASTER CIRCULAR FOR MUTUAL FUNDS

“Master Circular for Mutual Funds” is available on the SEBI website: www.sebi.gov.in under the heading Legal> Master Circulars> Master Circular for Mutual Funds.