

CIRCULAR

SEBI/HO/IMD/DF2/CIR/P/2020/175

September 17, 2020

**All Mutual Funds (MFs)/
Asset Management Companies (AMCs)/
Trustee Companies/ Boards of Trustees of Mutual Funds/
Association of Mutual Funds in India (AMFI)**

Sir / Madam,

Subject: Circular on Mutual Funds

1. Uniformity in applicability of Net Asset Value (NAV) across various schemes upon realization of funds

1.1. In partial modification to SEBI Circular No. SEBI/IMD/DF/21/2012 dated September 13, 2012, it has been decided that in respect of purchase of units of mutual fund schemes (except liquid and overnight schemes), closing NAV of the day shall be applicable on which the funds are available for utilization irrespective of the size and time of receipt of such application.

1.2. The existing provision on NAV applicability for liquid and overnight funds and cut-off timings for all schemes shall remain unchanged.

2. Trade Execution and Allocation

2.1. It has been decided that AMCs shall put in place a written down policy which *inter-alia* detail the specific activities, role and responsibilities of various teams engaged in fund management, dealing, compliance, risk management, back-office, etc., with regard to order placement, execution of order, trade allocation amongst various schemes and other related matters.

2.2. The aforesaid policy shall ensure that all the schemes and its investors are treated in a fair and equitable manner. Further, the policy shall be approved by the Board of AMC and the trustees and they shall ensure compliance with the following:

2.2.1. For orders pertaining to equity and equity related instruments:

- a) AMCs shall use an automated Order Management System (hereinafter referred to as 'OMS'), wherein the orders for equity and equity related instruments of each scheme shall be placed by the fund manager(s) of the respective schemes.
- b) In case a fund manager is managing multiple schemes, the fund manager shall necessarily place scheme wise order.
- c) All regulatory limits and allocation limits as specified in SID shall be in-built in the OMS to ensure that orders in breach of such limits are not accepted by the OMS. AMCs may further place soft limits for internal control and risk management based on its internal policy. Further, any change in limits specified in OMS shall be subject to the approval of Compliance and Risk Officer.
- d) All orders of fund manager(s) shall be received by dedicated dealer(s) responsible for order placement and execution.
- e) The internal policy of AMC may also provide certain scenarios within the regulatory limits, wherein, prior approval of Compliance or Risk Officer would be required through OMS before the order is received by the dealer.

2.2.2. Requirements with respect to investments in all instruments:

- a) AMC shall ensure that the dealing desk is suitably staffed and comply with the following:
 - i. All conversations of the dealer shall be only through the dedicated recorded telephone lines.
 - ii. No mobile phones or any other communication devices other than the recorded telephone lines shall be allowed inside the dealing room.

- iii. Restricted access to internet facilities on computers and other devices inside the dealing room. It shall be used for activities related to trade execution only.
 - iv. No sharing of information by dealer through any mode, except for trade execution under the approved internal policy.
- b) Orders by dealer can be placed either for each scheme individually or pooled on the basis of orders from multiple schemes. The trade allocation policy of the AMCs shall *inter-alia* detail (i) specific situations (not generic) wherein the orders by dealers shall be placed for each scheme individually or pooled from multiple schemes, (ii) the timeline to be considered for pooling of orders in case of multiple schemes.
- c) In case of pooled orders, post allocation of trades shall be on pro-rata basis as per the size of the order placed. The said allocation shall be based on weighted average price. The policy shall clearly include scenarios / situations (e.g. redemption pressure) in which deviation from the allotment of units on pro-rata basis would be permissible, if at all. Further, the deviations shall be on account of exigency only and require prior written approval of Chief Investment Officer, Risk Officer and the Compliance Officer with detailed rationale for such deviation.
- d) In case of scenarios, wherein, the mutual funds are required to place certain margins / collaterals in order to execute certain transactions, the policy shall include details on how such margins / collaterals shall be segregated / placed from amongst various schemes, without affecting the interest of investors of any scheme.

2.3. Monitoring of Compliance

2.3.1. AMC shall have a system based monitoring mechanism to ensure compliance with the requirements under paragraph 2.2.1 and 2.2.2.

2.3.2. Audit trail of activities related to order placement, trade execution and allocation shall be available in the system. Further, there should be time stamping with respect to order placed by fund manager, order placed by dealer, order execution and trade allocation.

2.3.3. Any non-compliance and all material information in this regard shall be reported to trustees on quarterly basis. Trustees shall inform the same to SEBI in their half yearly trustee report.

3. Applicability:

The circular shall be applicable with effect from January 1, 2021.

4. This circular is issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, read with the provisions of Regulation 77 of SEBI (Mutual Funds) Regulations, 1996, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

Hruda Ranjan Sahoo
Deputy General Manager
Tel no.: 022-26449586
Email: hrsahoo@sebi.gov.in