

CIRCULAR

SEBI/HO/IMD/IMD-PoD-2/P/CIR/2024/098

July 08, 2024

To

All Mutual Funds (MFs)/

All Asset Management Companies (AMCs)/

All Trustee Companies/ Board of Trustees of Mutual funds/

Association of Mutual Funds in India (AMFI)

Madam/ Sir,

Subject: Ease of doing business - Streamlining of prudential norm for passive schemes regarding exposure to securities of group companies of the sponsor of Mutual Funds

1. A working group was constituted by SEBI to review the present regulatory framework under SEBI (Mutual Fund) Regulations, 1996 ("MF Regulations") and recommend measures to promote ease of doing business for Mutual Funds.
2. Pursuant to public consultation on the recommendations of the working group and deliberations in the Mutual Funds Advisory Committee (MFAC), it was decided to streamline the extant prudential norm applicable to investments by passively managed Mutual Fund schemes in the group companies of their sponsors. Accordingly, the MF Regulations have been amended vide notification No. SEBI/LAD-NRO/GN/2024/188 dated July 02, 2024.
3. Pursuant to the said amendment, clause 9 of Seventh Schedule of the MF Regulations, *inter alia* mandates that no Mutual Fund scheme shall make any investment in the listed securities of group companies of the sponsor which is in excess of 25 per cent of the net assets of the scheme, except for investments by equity oriented exchange traded funds (ETFs) and Index Funds and subject to

such conditions as may be specified by SEBI. Accordingly, it has been decided as under:

- 3.1. Equity oriented ETFs and Index Funds, based on widely tracked and non-bespoke indices, can make investments in accordance with the weightage of the constituents of the underlying index. However, such investments shall be subject to an overall cap of 35% of net asset value of the scheme, in the group companies of the sponsor.
- 3.2. Widely tracked and non-bespoke indices shall be indices that are tracked by passive funds or act as primary benchmark for actively managed funds with collective Assets under Management (AUM) of INR 20,000 Cr. and above.
- 3.3. The list of indices based on the criteria specified at paragraph 3.2 above, shall be determined on half yearly basis as per the above specified AUM threshold as on March 31st and September 30th respectively. The list of such indices shall be updated by AMFI and published on its website by April 15th and October 15th respectively every year, after seeking SEBI's approval.
- 3.4. Based on the criteria specified at paragraph 3.2 above, the list of indices as on June 30, 2024 is provided at **Annexure A**.
- 3.5. Passive schemes based on underlying indices, other than those indices mentioned at Annexure A of this circular, shall be rebalanced within 30 business days from the date of issuance of this circular.
- 3.6. In case the portfolios of such schemes are not rebalanced within the period of 30 business days, justification in writing, including details of efforts taken to rebalance the portfolio shall be placed before the Investment Committee of the AMC. The Investment Committee, if so desires, can extend the timeline for rebalancing up to 60 business days from the date of completion of mandated rebalancing period.

- 3.7. In case the portfolios of schemes are not rebalanced within the aforementioned mandated plus extended timelines, AMCs shall not be permitted to launch any new scheme till the time the portfolio is rebalanced and not levy exit load, if any, on the exiting investors of such scheme(s).
4. This circular is issued in exercise of the powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992, read with Regulation 44 (1), clause 9(c) of Seventh Schedule and Regulation 77 of the MF Regulations to protect the interest of investors in securities and to promote the development of, and to regulate the securities market.
5. This circular is available at www.sebi.gov.in under the link “Legal ->Circulars”.

Yours faithfully,

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Annexure A

List of widely tracked and non-bespoke indices

(based on AUM as on June 30, 2024)

S.No.	Equity Index Name
1	Nifty 500
2	Nifty 50
3	Nifty Midcap 150
4	BSE 500
5	Nifty Large Midcap 250
6	Nifty Smallcap 250
7	Nifty 100
8	BSE SENSEX
9	BSE 100
10	NIFTY 500 Multicap 50:25:25
11	BSE 250 Small Cap
12	Nifty CPSE
13	Nifty infrastructure Index
14	Nifty Financial Services
15	BSE Midcap 150
16	Nifty Bank
17	Nifty India Manufacturing
18	Nifty Next 50
19	Nifty India Consumption
20	BSE Bharat 22
21	BSE Healthcare