

**CIRCULAR****SEBI/HO/IMD/IMD-PoD-1/P/CIR/2024/107****August 05, 2024****To,****All Mutual Funds****All Asset Management Companies (AMCs)****All Trustee Companies/ Board of Trustees of Mutual Funds****Association of Mutual Funds in India (AMFI)****All Recognized Stock Exchanges****All Recognized Depositories**

Madam/ Sir,

**Subject: Institutional mechanism by Asset Management Companies for identification and deterrence of potential market abuse including front-running and fraudulent transactions in securities**

1. In order to address instances of market abuse including front running and fraudulent transactions in securities, consultations were held with relevant stakeholders including Mutual Funds' Advisory Committee ('MFAC') on the proposal of putting in place a structured institutional mechanism at the end of AMCs, which can proactively identify and deter instances of such market abuse. Further a public consultation was also carried out on the abovementioned proposal.
2. Accordingly, the SEBI (Mutual Funds) Regulations, 1996 (hereinafter referred to as "MF Regulations") have been amended vide notification no. SEBI/LAD-NRO/GN/2024/197 dated August 01, 2024 ([link](#)), to give effect to the above proposal.
3. In view of the above amendment, AMCs shall put in place an institutional mechanism for identification and deterrence of potential market abuse including front-running and fraudulent transactions in securities. This mechanism shall consist of enhanced surveillance systems, internal control procedures, and escalation processes such that the overall mechanism is able to identify, monitor and address specific types of

misconduct, including front running, insider trading, misuse of sensitive information etc. The mechanism shall ensure the following –

**3.1. Accountability:**

3.1.1. The Chief Executive Officer or Managing Director or such other person of equivalent or analogous rank and Chief Compliance Officer of the asset management company shall be responsible and accountable for implementation of the institutional mechanism for deterrence of potential market abuse, including front-running and fraudulent transactions in securities.

**3.2. Alert-based surveillance mechanism:**

3.2.1. AMCs shall develop and implement systems and procedures to generate and process alerts in a timely manner.

**3.3. Processing of alerts:**

3.3.1. During the processing of alerts, AMCs shall consider and review all recorded communications including chats, emails, access logs of dealing room and CCTV footage (if available).

3.3.2. AMCs shall also maintain and monitor entry logs to the AMCs' premises.

**3.4. Standard operating procedures:**

3.4.1. The AMCs shall formulate written policies and procedures for conducting examination and taking action in case of potential market abuse including front-running and fraudulent transactions in securities by its employees and connected entities.

3.4.2. Such policies/procedures shall be approved by AMCs' Board of Directors.

**3.5. Action on suspicious alerts:**

3.5.1. AMCs shall take suitable action upon becoming aware of any potential market abuse by its employees or brokers / dealers, including suspension or termination of such persons/entities.

### 3.6. Escalation process:

3.6.1. AMCs shall have an escalation process to promptly inform its Board of Directors and Trustees, regarding instances of potential market abuse, if any, and results of the examination conducted by the AMCs.

### 3.7. Whistle blower policy:

3.7.1. AMCs shall have a documented whistle blower policy in line with sub-regulation (29) of regulation 25 of the SEBI MF Regulations.

### 3.8. Periodic review:

3.8.1. AMCs shall ensure that the procedures and/or systems put in place are reviewed and updated at appropriate periodic intervals.

## 4. Trade related information from exchanges:

4.1. For effective functioning of the institutional mechanism, the stock exchanges and depositories shall develop systems, in consultation with AMFI, to enable data sharing with AMCs.

5. **Reporting to SEBI** – In reference to alerts generated by AMCs as mentioned under para 3.2 above, AMCs shall report all examined alerts to SEBI along with action taken, in the Compliance Test Report ('CTR') and the Half-yearly Trustee Report ('HYTR') submitted to SEBI, in the following format:

| Sr. No. | Alert type and description | Observations made from the alert | Actions taken by the AMC |
|---------|----------------------------|----------------------------------|--------------------------|
|         |                            |                                  |                          |

6. In order to ensure uniform implementation of the abovementioned institutional mechanism across the industry, AMFI in consultation with SEBI, shall prescribe the detailed implementation standards within fifteen days from the date of this circular. The detailed implementation standards issued by AMFI shall mandatorily be followed

by all AMCs.

7. This circular is issued in exercise of the powers conferred by Section 11(1) of the Securities and Exchange Board of India Act, 1992 read with Regulation 25 (27) and Regulation 77 of the SEBI (Mutual Funds) Regulations 1996 to protect the interest of investors in securities and to promote the development of, and to regulate the securities market.
8. This circular is available at [www.sebi.gov.in](http://www.sebi.gov.in) under the link “Legal ->Circulars”.

Yours faithfully,

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