

CIRCULAR**SEBI/HO/IMD/PoD2/P/CIR/2024/183****December 31, 2024****To****All Mutual Funds (MFs)/****All Asset Management Companies (AMCs)/****All Trustees of Mutual Funds/****Association of Mutual Funds in India (AMFI)**

Madam/ Sir,

Subject: Introduction of a Mutual Funds Lite (MF Lite) framework for passively managed schemes of Mutual Funds

1. The extant regulatory framework for Mutual Funds is uniformly applicable for both active and passive Mutual Fund schemes ("MF Schemes") and does not differentiate regarding applicability of provisions relating to entry barriers (viz. net worth, track record, profitability), ongoing compliance cost for entities who may be desirous of launching only passive funds. Accordingly, as various aspects of the existing regulatory framework may not be necessary for passive funds, a relaxed regime with light-touch provisions "the MF Lite Framework" is being introduced only for passive Mutual Fund schemes, with an intent to promote ease of entry, encourage new players, reduce compliance requirements, increase penetration, facilitate investment diversification, increase market liquidity and foster innovation.
2. In this regard, a Working Group was formed by SEBI to study and recommend a relaxed regime for passively managed MF schemes. The recommendations of the Working Group were deliberated in the Mutual Funds Advisory Committee (MFAC) and subsequent to that, SEBI (Mutual Funds) Regulations, 1996 ("MF Regulations") was amended vide notification No. SEBI/LAD-NRO/GN/2024/221 dated December 16, 2024. In view of the above, various provisions relating to MF Lite Framework are covered under the following paragraphs.

3. Categories of passive schemes to be covered under MF Lite framework

- i. Regulation 79(1)(b) of Chapter XI of the MF Regulation defines “MF Lite” as a mutual fund that is having only such index funds, exchange traded funds, fund of funds or other mutual fund schemes as may be specified by the Board from time to time.
- ii. As per Regulation 79(1)(d) of Chapter XI of the MF Regulation, MF Lite scheme is any scheme launched by an MF Lite or any other eligible passive scheme as may be specified by the Board from time to time.
- iii. In this regard, the passive schemes based on the following underlying indices shall be covered under phase- 1 of implementation of the MF Lite Framework.
 - a. Passive funds based on only domestic equity passive indices (broad indices tracked by passive funds or act as primary benchmark for actively managed funds), with collective AUM of INR 5,000 Cr. and above as on December 31 of each Financial Year. AMFI, in consultation with SEBI, shall prescribe the list of such domestic equity indices on a periodic basis.
 - b. (i) All G-Sec/ T-bills/ SDL based domestic target maturity debt passive funds and (ii) domestic constant duration passive funds based on such debt indices with collective AUM, which exceeds a threshold of INR 5,000 Cr. and above as on December 31 of each Financial Year. AMFI, in consultation with SEBI, shall prescribe the list of such domestic debt indices on a periodic basis.
 - c. All Gold ETFs, Silver ETFs and FoFs based on only Gold or Silver ETFs.
 - d. Overseas ETFs and FoFs having single underlying overseas passive fund, wherein the underlying overseas benchmarks are as permitted under clause 4 of this circular.
 - e. All FoFs investing only in single domestic/ overseas index, wherein the reference benchmarks of underlying passive funds are as permitted under clause 3 (in case of domestic underlying indices) and clause 4 (in case of overseas underlying indices) of this circular.
 - f. All FoFs investing in more than one index shall not be covered under the MF Lite framework under the phase 1 of implementation.

4. **Uniform guidelines under MF Lite Framework for launching equity passive schemes for overseas indices**

- i. The indices, on which overseas passive schemes can be launched, shall be standardized across industry and broad based in nature.
- ii. Overseas ETFs/Index funds and FoFs investing in overseas ETF/index funds shall comply with the diversification requirement of minimum 10 securities in an equity index portfolio.
- iii. Passive funds based on only those overseas equity passive indices, whose quantitative threshold/ AUM exceeds a minimum threshold of \$ 20 billion as on December 31 of each Financial Year shall be covered under phase 1 of implementation of MF Lite. AMFI, in consultation with SEBI, shall prescribe the list of such equity overseas indices on a periodic basis.

Section 1

5. In furtherance to the above, this section shall be applicable to entities intending to get registered under Chapter XI of MF Regulations on “MF Lite Framework” to launch only MF Lite schemes.

A. Eligibility criteria for Sponsor of MF Lite

- i. Clause (iii) of the first proviso to Regulation 81 of Chapter XI of the MF Regulations *inter alia* states that, the sponsor shall appoint experienced personnel in the MF Lite asset management company such that the total combined experience of Chief Executive Officer, Chief Operating Officer, Chief Compliance Officer and Chief Investment Officer shall be at least twenty years. Further, as per clause (vi) of first proviso to Regulation 81 of Chapter XI of the MF Regulations, the sponsor shall ensure that other conditions in this regard as may be specified by the Board from time to time are adhered to.
- ii. Accordingly, it has been decided as under:
 - a. In cases of both the main and alternate eligibility routes, AMCs may appoint a separate Chief Risk Officer (CRO) on a voluntary basis, otherwise the

CCO may also act as the CRO of the AMC, subject to his/her eligibility and experience in risk management.

B. Pooled Investment Vehicle as sponsor of Mutual Funds

- i. Second proviso to Regulation 81 of Chapter XI of the MF Regulations provides for a private equity fund or a pooled investment vehicle or a pooled investment fund to sponsor an MF Lite, subject to conditions as may be specified by SEBI from time to time.
- ii. In this regard, the following has been decided.
 - a. Among the pooled investment vehicles, only the private equity funds (PEs) can sponsor an MF Lite.
 - b. Such PEs shall comply with clauses (i) to (vi) of the first proviso to Regulation 81 of Chapter XI of the MF Regulations.
 - c. For any PE to qualify as a MF Lite sponsor, the following criteria shall be applicable;
 - I. The applicant PE (scheme/ fund) is itself a body corporate or, a body corporate set up by a PE. The applicant body corporate may be set up in India or abroad.
 - II. The applicant PE or its manager have a minimum of five years of experience in the capacity of fund/investment manager and an experience of investing in the financial sector, where it should have managed committed and drawn-down capital of not less than INR 2,500 Cr. as on the date of its application made to SEBI.
 - d. The following additional safeguards shall also be applicable for PEs acting as MF Lite sponsor.
 - I. There shall be no off-market transactions between the schemes of the MF Lite and
 - a) Sponsor PE; or
 - b) Schemes/ Funds managed by the manager of the sponsor PE;or

- c) Investee Companies of schemes/ funds of sponsor PE, where it holds more than 10% stake; or has a board representation or a right to nominate Board representation.
- II. As per clause (ii) of the first proviso to Regulation 81 of Chapter XI of the MF Regulations, an initial shareholding of sponsor equivalent to capital contributed to an AMC to the extent of not less than INR 75 Cr. shall be locked-in for a period of 3 years. In such cases, the lock in period of 3 years shall continue in case of transfer of sponsorship to any other entity within the PE group provided all the criteria required for a PE to act as sponsor are met by the transferee PE as well.
- III. The said lock in period of 3 years shall also be applicable to the shareholding of PE in the corporate entity, which is sponsoring the MF Lite.
- IV. The experience, track record and eligibility regarding the fit and proper criteria of any applicant PE to become sponsor of an MF Lite shall be ascertained through its conduct in the respective home jurisdiction.

C. Reduction of stake and disassociation of sponsor

- i. Clause 1A.1.3.D of “Master Circular for Mutual Funds” dated June 27, 2024 describes various provisions w.r.t “Reduction of stake and disassociation of sponsor” and shall also be applicable for AMCs registered under Chapter XI of MF Regulations on “MF Lite Framework” except sub- clause 1A.1.3.D (iii)(c).
- ii. For MF Lite Framework, in place of sub- clause 1A.1.3.D (iii)(c) of the Master Circular, the following shall be applicable:
 - a. *Net profit of the AMC after providing for depreciation, interest and tax in 3 out of immediately preceding 5 years including the fifth year; and average net annual profit after providing for depreciation, interest and tax during the immediately preceding 5 years should be at least INR 5 cr.*

D. Networth requirement for the MF Lite AMC

- i. Regulation 86(4) of Chapter XI of the MF Regulations *inter alia* states that if the total AUM of the MF Lite AMC exceeds a specified threshold, the MF Lite AMC shall abide by the net worth requirements under Chapter IV of the Regulations.
- ii. In this regard, it is decided that an MF Lite AMC shall abide by net worth requirements under Chapter IV of MF Regulations, as and when the total AUM of the MF Lite AMC exceeds INR 1 Lakh Cr. In such instances, the MF Lite AMC shall not launch any new scheme or take further subscriptions to existing schemes, until it meets the networth requirement as per Chapter IV of MF Regulations.

E. Deployment of liquid net worth by Asset Management Company (AMC)

In terms of Regulation 86 of Chapter XI of the MF Regulations, an MF Lite AMC shall deploy the minimum net worth required, as applicable, in assets as may be specified by SEBI. In this regard, it has been decided that the AMCs shall deploy the minimum net worth required either in cash, money market instruments, Government Securities, Treasury bills, Repo on Government securities, or in listed AAA rated debt securities without bespoke structures/structured obligations, credit enhancements or embedded options or any other structure/feature which increase the liquidity risk of the instrument on a continuous basis and such investments shall be unencumbered. For this purpose, investment in Mutual Fund schemes that in turn invest in aforementioned securities shall also be considered.

F. Acquisition of an AMC

- i. In terms of Regulation 81 (a) (ii) of Chapter XI of the MF Regulations, in case of change in control of an existing AMC due to acquisition of shares, the sponsor shall ensure that the positive liquid net worth of the sponsor or funds tied up by the sponsor is to the extent of aggregate par value or market value of the shares proposed to be acquired, whichever is higher. In this regard, the following has been decided:

- a. In case of change in control of an existing MF Lite AMC due to acquisition of shares, where the cost of acquisition is funded out of borrowings by a sponsor, the sponsor shall have sufficient other assets to encumber for borrowings other than the shares of the proposed AMC.
- b. The sponsor's stake in the proposed AMC shall be free from encumbrance, in any form, at all points of times.
- ii. In terms of clause (iv) to the first proviso of Regulation 81 (a) of Chapter XI of the MF Regulations, the sponsor has to ensure that in case of acquisition of an existing AMC, the sponsor shall have minimum positive liquid net worth equal to incremental capitalization required to ensure minimum capitalization of the AMC and the positive liquid net worth of the sponsor or the funds tied up by the sponsor are to the extent of aggregate par value or market value of the shares proposed to be acquired, whichever is higher. In this regard, it has been decided as under:
 - a. In case of change in control of the existing AMC due to acquisition of shares, the cost of acquisition may be funded out of borrowings by a sponsor but the sponsor shall have sufficient other assets to encumber for borrowings other than the shares of the proposed AMC.
 - b. Minimum incremental capital contribution required in the AMC shall be funded only out of the net worth of the acquirer and not through borrowings.
 - c. The sponsor's stake in an AMC shall be free from encumbrance in any form at all points of time.

G. Norms for shareholding

- i. In terms of Regulation 82 (1) of Chapter XI of the MF Regulations, notwithstanding anything contained under regulation 7B of MF Regulations, a sponsor is permitted to obtain a registration as a mutual fund under Chapter II of MF Regulations and a separate registration as an MF Lite under Chapter XI of MF Regulations subject to conditions specified by the Board from time to time. Further, in terms of Regulation 82 (2), an existing sponsor may transfer its passive schemes, which are eligible as MF Lite schemes, from an existing

mutual fund to an MF Lite belonging to a group entity of the same sponsor, subject to conditions as specified by SEBI from time to time. In this regard, the following has been decided:

- a. New players desirous of launching only passive MF schemes shall register under the MF Lite framework.
 - b. Existing MFs having both active and passive schemes may hive off respective passive schemes covered under MF Lite Framework, if they so desire, to a different group entity, thereby resulting in management of active and passive schemes by separate AMCs but under a common sponsor. In case of hiving off, the following shall need to be complied with:
 - I. The sponsor shall completely segregate and ring-fence its resources including infrastructure, technology and staff etc. for passive MF management from the active MF management. However, the MF Lite AMC may outsource certain other support functions namely, sales and marketing, Human Resources (HR) and administration from the existing AMC with an outsourcing agreement in place, with all transactions at arm's length basis.
 - II. Various regulatory requirements including continuous net worth requirement shall be made separately applicable to both the existing AMC and the MF Lite AMC.
 - III. MF Lite AMC can carry the past track records of passive schemes under it.
 - IV. A sponsor shall be permitted to obtain up to 2 registrations i.e. one each for MF- active and MF- Lite.
 - V. The hive-off of the passive business by an existing AMC shall be made subject to the AMC (continuing with only active schemes) providing an exit option to the existing investors of the business being hived off.
- ii. In terms of Regulation 82 (4) of Chapter XI of the MF Regulations, an existing mutual fund that intends to only launch MF Lite schemes may surrender its existing registration and migrate as an MF Lite subject to the conditions and the manner specified by the Board. In this regard, it is decided that if an existing mutual fund surrenders its existing registration and migrates as an MF

Lite, the said AMC shall manage passive schemes based only on those underlying indices that are permitted under abovementioned clause 3 and clause 4 of this circular.

H. Trust deed to be registered under the Registration Act

In terms of Regulation 83 of Chapter XI of the MF Regulations, an MF Lite shall be constituted in the form of a trust and the instrument of trust shall be in the form of a deed, as specified by the Board, duly registered under the provisions of the Indian Registration Act, 1908 (16 of 1908), executed by the MF Lite AMC in favor of the trustees named in such an instrument. In this regard, AMFI in consultation with SEBI shall prescribe a standard trust deed, in line with roles and responsibilities of trustees as per Chapter XI of the MF Regulations and provisions mentioned under this circular.

I. Roles and responsibilities of trustees

- i. Regulation 85 of Chapter XI of the MF Regulations specifies the rights and obligations of trustees *inter alia* pertaining to related party transactions, conflicts of interest, undue influence of sponsor, mis-selling, misconduct including market abuse/ misuse of information; including front running etc. In this regard, the trustees shall seek information from AMCs pertaining to the aforesaid issues. In case of any adverse observations with respect to the same, the trustee shall intimate SEBI regarding the same.
- ii. In terms of clause 1.1. (iv) of Annexure 1 of Master Circular for Mutual Funds dated June 27, 2024, both the AMC and the trustees should mandatorily have separate Risk Management Committees (RMCs). In this regard it is decided that trustees of an MF Lite may not be required to have an RMC. Further, the requirement of an RMC for an MF Lite AMC shall be optional and the audit committee of AMC may undertake the additional role of RMC in case of MF Lite.
- iii. Clause 6.1.1 of Master Circular for Mutual Funds dated June 27, 2024 mandates the trustees to constitute an Audit Committee. In this regard constitution of the audit committee shall be optional for trustees of an MF Lite AMC.

- iv. Clause 6.8 of Master Circular for Mutual Funds dated June 27, 2024 on “Resources for Trustees of Mutual Funds” shall be optional for trustees of an MF Lite AMC.
- v. In case an existing AMC doesn’t hive off its passive schemes and continues to manage the passive schemes under the current MF Regulations, the reduced roles and responsibilities of trustees as mentioned in Chapter XI of the MF Regulations shall also be applicable to the existing trustees of such AMC but only pertaining to the passive funds allowed under the MF lite framework.
- vi. Apart from the above, reporting presently required to be made to trustees by AMC shall continue for MF Lite also, for information of the trustees. In case AMC fails to timely submit the same to trustee, the trustee shall intimate regarding the same to SEBI. Such information *inter alia* shall include the following:
 - a. Information sharing of tracking error (in case of equity) and tracking difference (in case of debt) in case it exceeds specified limits.
 - b. Submission of declaration on votes casted by AMC that votes are cast in best interest of investors.
 - c. Sharing of information regarding breakage of seal and/or breakdown of the time stamping process.
 - d. Sharing of information of change in TER.
 - e. Information on declaration of record date, determination of quantum of dividend to be paid and ratification of actual dividend paid.

In case the trustees find any adverse observations with respect to the aforesaid reporting, the trustee shall intimate regarding the same to SEBI.

J. Roles and responsibilities of Board of AMCs

- i. While trustees of MF Lite shall have the overarching role of protection of the interest of investors, the Board of AMCs shall have the primary accountability for acting in the interests of the investors.

- ii. The core responsibilities mentioned at clause 6.7A.4 of the “Master Circular for Mutual Funds” dated June 27, 2024 shall be vested on the Board of AMC and the trustees as under:
 - a. The Board of AMC and trustees of an MF Lite AMC shall be responsible for the core responsibilities mentioned at sub- clauses (c), (d), (e), (f) and (g) of clause 6.7A.4 of the “Master Circular for Mutual Funds”.
 - b. The Board of AMC of an MF Lite AMC shall be responsible for the core responsibilities mentioned at sub- clauses (a) and (b) of clause 6.7A.4 of the “Master Circular for Mutual Funds”.
- iii. Further, certain common responsibilities, currently entrusted upon both trustees and AMCs, under the extant MF Regulations, such as the following, shall be applicable only to the Board of AMCs of an MF Lite.
 - a. Periodic reporting to SEBI as required by MF Regulations and circulars issued there under.
 - b. Overall risk management of all scheme specific and AMC specific risks.
 - c. Filing of offer documents with SEBI and obtaining regulatory approvals.
 - d. Ensuring adequacy of infrastructure and sufficient key personnel with adequate experience and qualification to undertake management of assets at all times.
 - e. Appointment of key personnel including the chief investment officer, registrars and share transfer agents, compliance officer, auditor, custodian etc. and empanelment of brokers.
 - f. Responsibility for valuation of investments in accordance with the specified requirements of the MF Regulations.
 - g. Constitution of Unit Holders Protection Committee (UHPC) as per Regulation 87(27) of Chapter XI of the MF Regulations and clause 6.7C of “Master Circular for Mutual Funds” dated June 27, 2024.
- iv. The trustees are presently required to grant following approvals, which shall be accorded by the Board of AMC under the MF Lite framework:
 - a. Approval for parking of funds pending deployment, in case it exceeds specified limit.

- b. Approval for a detailed written policy on creation of segregated portfolio (in case of debt oriented mutual funds) and necessary monitoring of recovery of investment proceeds.

K. Investment Management Agreement

- i. In terms of Regulation 85(2) of Chapter XI of the MF Regulations, the investment management agreement shall contain such clauses as may be specified by the Board and such other clauses as are necessary for the purpose of making investments.
- ii. In this regard, AMFI in consultation with SEBI shall prescribe a standard Investment Management Agreement in respect of MF Lite framework.

L. Transactions through brokers

- i. Currently, the transactions by the market maker in the underlying basket are excluded for the purpose of computation of aggregate purchase or sale of securities through any broker as required under regulation 25(7)(a) and (b) of MF Regulations.
- ii. Regulation 87(11) (a) of Chapter XI of the MF Regulations *inter alia* states that the aggregate purchase and sale of securities through an associate broker shall exclude such other transactions as may be specified by the Board. Further, in terms of Regulation 87(11) (b) of Chapter XI of the MF Regulations, the aggregate purchase and sale of securities through a non-associate broker shall exclude such other transactions as may be specified by the Board.
- iii. In this regard it is decided that market makers' trades for creation and redemption of units shall be excluded from computation of the broker limits for MF Lite schemes as per Regulation 87(11) of Chapter XI of MF Regulations.

M. Registration of MF Lite Schemes

- i. The fast tracking of SIDs shall be mandatory for passive schemes floated by AMC's registered under MF Lite framework.
- ii. MF Lite AMC's shall not be required to file a separate Key Information Memorandum (KIM) for the respective scheme.

N. Submission of Yearly AMC Report (YAR) report to SEBI

- i. As per Regulation 87(34) of Chapter XI of the MF Regulations, the Board of MF Lite AMC shall furnish a report to the Board on a yearly basis. In this regard it is decided that the requirement of submission of Half Yearly Trustee Report (HYTR) to SEBI shall be discontinued.
- ii. Instead, the Board of MF Lite AMC shall furnish to SEBI an YAR on a yearly basis furnishing the similar details as that of the extant HYTR.

Section 2

6. This section covers provisions relating to ease of compliance, relaxed disclosures and other regulatory requirements and shall be applicable to all passive schemes based on underlying indices those are permitted under clause 3 and clause 4 of this circular, irrespective of the AMC being registered under the MF Lite Framework or not. If passive schemes based on the aforesaid indices are already launched by the existing AMCs, the following proposals shall also be applicable to those passive schemes.

A. Simplified Scheme Information Document

SEBI had simplified and streamlined the Scheme Information Documents (SID) of mutual funds schemes as per paragraph 1.1 of the “Master Circular for Mutual Funds” dated June 27, 2024. The format of SID is further simplified, standardized and rationalized for passive schemes based on underlying indices as per clause 3 and clause 4 of this circular. The format of the simplified SID for such schemes is enclosed with the circular. The simplified SID shall be applicable for filing of all passive schemes based on underlying indices those are permitted under clause 3 and clause 4 of this circular.

B. Investor education and awareness

Paragraph 10.1.16 of the “Master Circular for Mutual Funds” dated June 27, 2024 prescribes allocation of funds towards “Investor Education Awareness”. In this regard, the following has been decided:

- a. The AMCs shall allocate funds towards investor education and awareness initiatives for passive schemes as under:
 - I. Fund of Funds (investing more than 80% of its NAV in the underlying domestic passive fund) – Nil
 - II. Passive schemes and Overseas Fund of Funds (FoFs)- based on underlying indices as per clause 3 and clause 4 of this circular: 5% of total TER charged to direct plans, subject to maximum of 0.5 bps of AUM.
- b. Out of the total amount transferred to AMFI for investor awareness by AMCs, AMFI shall allocate a minimum of 5 percent for focused investor education and awareness towards promoting passive funds, distinct from AMFI's general investor education initiatives.

C. Investment and trading in securities by the employees of the AMC(s) and Trustee(s)

Paragraph 6.6 of the “Master Circular for Mutual Funds” dated June 27, 2024 specifies the requirements regarding “Investment and trading in securities by the employees of the AMC(s) and Trustee(s)”. In this regard, it has been decided that:

- a. Prior approval of employees' transactions shall be replaced with prior intimation. Thus, w.r.t MF Lites, prior intimation of at least 3 working days before the date of transaction shall be mandated and the requirement for reporting of employees' transactions within 7 calendar days shall be retained.
- b. In case of existing AMCs, the above provision shall be applicable to those employees who are only associated with passive schemes based on underlying indices those are permitted under clause 3 and clause 4 of the circular.

D. Compliance and Disclosure requirements

i. Updation of SID and KIM

As per paragraph 1.2.1 of “Master Circular for Mutual Funds” dated June 27, 2024, SIDs are required to be updated within next six months from the end of

the 1st and 2nd halves of the financial year in which the schemes were launched, based on the relevant data and information as at the end of previous month. Further, SID needs to be updated within one month from the end of the half-year, based on the relevant data and information as at the end of September and March months respectively. In this regard, the SIDs for MF Lite schemes shall be updated within 2 months from the end of each financial year.

ii. Portfolio Disclosure

Paragraph 5.1 of the “Master Circular for Mutual Funds” dated June 27, 2024 specifies norms for portfolio disclosures of mutual fund schemes. In this regard, the following has been decided:

- I. Debt passive schemes shall disclose their scheme portfolio on a monthly basis within 10 days of every month.
- II. Hybrid passive schemes (please refer to clause 7(A) of this circular) shall disclose their scheme portfolio on a monthly basis within 10 days of every month.
- III. Equity passive schemes shall disclose their scheme portfolio within 10 days from the close of each quarter.
- IV. Separate portfolio disclosure of passive schemes on a half yearly basis shall be done away with.

iii. Unaudited Half Yearly Financials

Paragraph 5.3 of the “Master Circular for Mutual Funds” dated June 27, 2024 specifies publication of the unaudited half-yearly results. In this respect, it has been decided to do away with the requirement for publishing unaudited half yearly financials of the passive schemes. The Annual Reports of such schemes shall, however, be required to continue to provide such details.

E. Investments by passive schemes

- i. The underlying securities in which passive schemes may invest shall be equity, plain vanilla debt securities, physical commodities and exchange traded commodity derivatives.

- ii. Investment in equity derivatives of underlying securities forming part of the index shall also be available as an investment option in case the underlying security is not available for purchase. However, investments in bespoke debt securities and debt derivatives shall not be allowed.
- iii. Passive schemes shall not be allowed to invest in the following:
 - Unlisted debt instrument
 - Bespoke or complex debt products
 - Securities with special features
 - Inter scheme transactions
 - Short selling
 - Unrated debt and money market instruments (except G-Secs, T-Bills and other money market instruments)
- iv. Investment in equity derivatives of underlying securities shall be allowed in instances of portfolio rebalancing or unavailability of the securities.

F. Tracking difference (TD) for equity oriented passive schemes

In case of equity oriented passive schemes, TD shall be targeted to be 50 bps (over and above actual TER charged). In case the same is not maintained, it shall be brought to the notice of trustees along with corrective actions taken by the AMC, if any.

Section 3

7. This section covers provisions that shall be applicable to all AMCs, whether registered under MF Lite or the extant MF Regulations.

A. Introduction of Hybrid ETFs/ Index Funds

- i. AMCs can launch a new class of passive fund i.e., Hybrid passive funds which shall replicate a composite index comprising of equity and debt and enable investors to invest in a single product having exposure to equity and debt instruments.
- ii. Hybrid ETF / Index Fund shall mean an ETF / Index Fund which tracks an index/ indices containing a combination of equity and debt constituents.

- iii. AMCs shall launch hybrid passive schemes only in the following 3 categories.
 - a. Balanced (Equity 40%-60% and Debt 40%-60%)
 - b. Equity Oriented (Equity 65%-80% and Debt 20%-35%)
 - c. Debt oriented (Debt 65%-80% and Equity 20%-35%)
- iv. The AMCs shall be allowed to launch one ETF and one Index Fund for each category as mentioned at paragraph 7A (iii) above.
- v. The minimum subscription amount at the time of New Fund Offer (NFO) for Hybrid ETFs/ Index Funds shall be Rs. 10 Crore.
- vi. The ETF/ Index Fund shall evaluate and ensure compliance of the asset allocation of equity and debt for all its Hybrid ETFs/ Index Funds, at the end of every calendar quarter.
- vii. The provisions regarding composition of indices for debt ETFs / Index Funds as specified in paragraph 3.5 of the Master Circular for Mutual Funds, shall apply to the debt component of Hybrid ETFs / Index Funds also. Further, debt indices for this purpose shall be only constant duration indices as permitted under clause 3 of this circular.
- viii. The provisions regarding composition of indices for Equity ETFs / Index Funds under paragraph 3.4 of the Master Circular for Mutual Funds shall apply to the Equity Index component of Hybrid ETFs / Index Funds.
- ix. The underlying index to be tracked by such hybrid funds shall be the composition of an equity and a debt index from the list of equity and debt indices as permitted under clause 3 of this circular.
- x. The provisions regarding replication and rebalancing norms as specified in paragraphs 3.5 and 3.6.7 of the Master Circular for Mutual Funds for ETF / Index Funds shall apply as per the existing norms for debt and equity components of Hybrid ETF /Index Funds, respectively.
- xi. The limit for targeted TD for such funds shall be specified by AMFI in consultation with SEBI.
- xii. Hybrid ETFs shall disclose the indicative NAV (iNAV) at least four times a day i.e., opening and closing iNAV and at least two times during the intervening period with minimum time lag of 90 minutes between the two disclosures.

B. Disclosure of “Debt Index Replication Factor (DIRF)” in debt oriented passive schemes

- i. Debt oriented passive schemes shall disclose the “Debt Index Replication Factor (DIRF)” of the underlying index by the portfolio along with the Tracking Error and TD on their AMC's website.
- ii. For this purpose, 100% replication at individual issuer level shall be achieved if the portfolio has same issuer in the exact same percentage as is the case for the Index. In case the weightage of a particular issuer is different in the Index and the portfolio, then lesser of the weightage (subject to assigning 0 replication percentage where the instrument is absent in either index or portfolio) would be considered as replicated (“Individual issuer Replication Factor”) and the aggregate of all such replication factors in the portfolio shall give portfolio level replication or DIRF. An illustration is provided below:

Issuer	Index weight	Portfolio weight	Replication Factor
A	15%	13%	13%
B	13%	15%	13%
C	8%	8%	8%
D	12%	0%	0%
E	0%	12%	0%
F	0%	8%	0%
G – AAA	8%	0%	0%
G-Sec/ T-bills	22%	20%	20%
SDLs	13%	16%	13%
Cash and Cash Equivalents	9%	8%	8%
Total	100%	100%	75%

- iii. DIRF shall also be disclosed along with the portfolio disclosure of the debt passive schemes.

C. Introduction of close ended debt passive schemes.

- i. AMCs may launch close ended debt passive schemes irrespective of the MF being registered under the extant MF Regulation or the MF Lite framework.
- ii. AMCs shall launch close ended debt passive funds based only on target maturity indices.
- iii. The existing standard framework for construction of index for target maturity indices shall also be applicable for close ended passive schemes subject to compliance with paragraph 3.5 of the Master Circular for MFs on “Norms for Debt Exchange Traded Funds (ETFs)/Index Funds”. However, the rating of

the underlying instruments may go below AAA up to investment grade in case of such funds.

8. All other relevant provisions of the “Master Circular for Mutual Funds” dated June 27, 2024, unless the context otherwise requires, or is contradictory to the provisions of this circular, shall apply to a MF Lite, MF Lite schemes, and trustees and AMCs in relation to such mutual funds and schemes.
9. The provisions of this circular shall come into effect from March 16, 2025.
10. This circular is issued in exercise of the powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992 and Regulation 77 of the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 to protect the interest of investors in securities and to promote the development of, and to regulate the securities market.
11. This circular is available at www.sebi.gov.in under the link “Legal ->Circulars”.

Yours faithfully,

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SCHEME INFORMATION DOCUMENT-
Applicable for Passively Managed schemes of Mutual Funds under MF Lite Framework

Name of Mutual Fund :

Name of Asset Management Company :

Address of AMC :

Website of AMC :

Name of Trustee Company :

Address of Trustee Company :

Name of the Scheme :

Category of Scheme

*Equity/ Debt/ Hybrid ETF/Gold or Silver ETF/FoFs (single domestic or overseas index). *In case of Hybrid funds, indicate the sub category (Balanced/Equity oriented/debt oriented)

Scheme Code: (To be disclosed after obtaining the same):

NFO open date:

NFO close date:

Offer for Units of Rs. -- each for cash during the New Fund Offer and Continuous offer for Units at NAV based prices

Investment objective	Scheme Riskometer	Benchmark Riskometer (as applicable)
XXXXXXXX AMC XXXXX index scheme: Passive investment in equity and equity related securities replicating the composition of the Index, subject to tracking errors (given for illustration purpose) “There is no assurance that the investment objective of the Scheme will be achieved”		

Investors are advised to refer to the Statement of Additional Information (SAI) for details of the _____ Mutual Fund, Standard Risk Factors, Special Considerations, Tax and Legal issues and other general information on www.sebi.gov.in.

The particulars of the Scheme have been prepared in accordance with the Securities and Exchange Board of India (Mutual Funds) Regulations 1996, (herein after referred to as SEBI (MF) Regulations) as amended till date and circulars issued thereunder filed with SEBI. The units being offered for public subscription have not been approved or recommended by SEBI nor has SEBI certified the accuracy or adequacy of the Scheme Information Document.

The Scheme Information Document sets forth concisely the information about the scheme that a prospective investor ought to know before investing. Before investing, investors should also ascertain about any further changes to this Scheme Information Document after the date of this Document from the Mutual Fund / Investor Service Centres / Website / Distributors or Brokers.

SAI is incorporated by reference (is legally a part of the Scheme Information Document). For a free copy of the current SAI, please contact your nearest Investor Service Centre or log on to our website.

The Scheme Information Document should be read in conjunction with the SAI and not in isolation.

This Scheme Information Document is dated _____.

HIGHLIGHTS/SUMMARY OF THE SCHEME

Sr. No.	Title	Description	
I.	Benchmark (TRI)		
II.	Plans and Options Plans/Options and sub options under the Scheme	Plan- Direct Plan/Regular Plan Options under each Plan(s) Growth Income Distribution cum Capital Withdrawal (IDCW) (include facilities if applicable) • Including Default option/ facility (as applicable)	
III.	Load Structure		
IV.	Minimum Application Amount/switch in	• During NFO: • On continuous basis:	
V.	Minimum Additional Purchase Amount	• On continuous basis:	
VI.	Minimum Redemption/switch out amount	• On continuous basis:	
VII.	Tracking Error	Regular Plan	Direct Plan
VIII.	Tracking Difference	Regular Plan	Direct Plan
IX.	Computation Of NAV	Mention the formula for computation of NAV (Detailed disclosure on weblink)	
X.	Asset Allocation.	This scheme tracks Index. 95% allocation is to the constituents of index and 5% to (as applicable) List of underlying securities for passive schemes to invest: 1. Equity 2. Plain vanilla debt securities 3. Physical commodities and exchange traded commodity derivatives 4. Equity derivatives 5. GSEC, Tbills and other money market instruments 6. Any other instrument (as applicable) For details AMC may refer Annexure 1 (As applicable)	
XI.	Fund manager details	Name: Managing since: Total experience (in years)	
XII.	Annual Scheme Recurring Expenses	(Mention only the actual TER % applicable) For detailed disclosure, kindly refer SAI	

XIII.	Transaction charges and stamp duty	Indicate only the amount of transaction charges and stamp duty applicable
XIV.	Information available through weblink	(Following information may be provided through weblink. Mention weblink/ weblinks in this box for each item) • Liquidity/listing details • NAV disclosure • Applicable timelines for dispatch of redemption proceeds etc • Breakup of Annual Scheme Recurring expenses • Definitions • Applicable risk factors • Detailed disclosures regarding the index, index eligibility criteria, methodology, index service provider, index constituents, impact cost of the constituents/ underlying fund in case of fund of funds • List of official points of acceptance • Penalties, Pending Litigation or Proceedings, Findings of Inspections or Investigations • Investor services • Portfolio Disclosure • Detailed comparative table of the existing schemes of AMC • Scheme performance • Periodic Disclosures • Any disclosure in terms of Consolidated Checklist on Standard Observations • Scheme specific disclosures (as per the prescribed format) • Scheme Factsheet <i>Instruction to AMC : For details on disclosures to be provided under each of the above bullet points, refer to Annexure 2 titled 'Sections moved to Weblink')</i>
	How to Apply	Summary of process only like availability of application form from either the Investor Service Centers (ISCs)/Official Points of Acceptance (OPAs) of AMC or may be downloaded from the website of AMC. For detailed disclosure, kindly refer SAI
	Where can applications for subscription/redemption/ switches be submitted	Summary of process only like the list of official points of acceptance, collecting banker details etc. Inform investors that it is mandatory to mention their bank account numbers in their applications/requests for redemption For detailed disclosure, kindly refer SAI
	Specific attribute of the scheme (such as lock in/ duration in case of target maturity scheme/close ended schemes etc.) (as applicable)	

	Special product/facility available during the NFO and on ongoing basis	Briefly describe the facilities/products Available Facilities like: • Systematic Investment Plan • Systematic Transfer Plan • Systematic Withdrawal Plan • For further details of above special products / facilities, For detailed disclosure, kindly refer SAI
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Optional

	Segregated portfolio/side pocketing disclosure	Optional. Confirmation/disclosure statement only. For Details, kindly refer SAI
	Stock lending	Confirmation/disclosure statement only. For Details, kindly refer SAI

Annexure 1

AMC to choose the applicable provisions based on intended asset allocation	
Equity derivatives of underlying securities forming part of the index may also be available as an investment option in case the underlying security is not available for purchase.	• Calculation of cumulative gross exposure • Numerical example of risk involved • Disclosure relating to extent and manner of participation in derivatives to be provided
ETCDs (applicable to ETFs only)	• Risk factors w.r.t ETCDs • Calculation of cumulative gross exposure • Investment limits • Disclosure relating to extent and manner of participation in derivatives to be provided
Hybrid schemes	As applicable
Close ended debt schemes	As applicable
Gold or Silver ETF/FoFs (single domestic /overseas index)	As applicable

Annexure 2

Liquidity/listing details	Provide Liquidity provisions on ongoing basis. Listing details only to be provided if the scheme intends to list immediately after NFO.
NAV disclosure	• Disclosure timings • Disclosure pertaining to illustration on computation of NAV and Methodology for calculation of sale and re-purchase price of the units of mutual fund scheme.
Applicable timelines	Timeline for • Dispatch of redemption proceeds, • Dispatch of IDCW (if applicable) etc.
Breakup of Annual Scheme Recurring expenses	• Head wise breakup including impact of TER on returns of both directs and regular plan through illustration may be provided. • TER for last 6 months as well as scheme factsheet shall be made available
Definitions	Functional website link that contains detailed description
Risk factors	• Scheme specific risk factors • Risk mitigation strategies
Index methodology/ Details of underlying fund in case of Fund of Funds	Disclosures regarding the index, index eligibility criteria, methodology, index service provider, index constituents, impact cost of the constituents. In case of Fund of Funds Scheme, Details of Benchmark, Investment Objective, Investment Strategy, TER, AUM, Year wise performance,

	Top 10 Holding/ link to Top 10 holding of the underlying fund should be provided.
List of official points of acceptance:	Details to be uploaded and updated on a functional website link
Penalties, Pending Litigation or Proceedings, Findings of Inspections or Investigations For Which Action May Have Been Taken Or Is In The Process Of Being Taken By Any Regulatory Authority	AMCs to ensure real time updation of data on the said link.
Investor services	Details of related information/procedure/investor points • Contact details for general service requests • Contact details for complaint resolution
Portfolio Disclosure	• As per specified timelines i.e. Fortnightly / Monthly/ Half Yearly • Portfolio turnover rate (times) and policy
Detailed comparative table of the existing schemes of AMC	(As applicable)
Scheme performance	(As applicable)
Periodic Disclosures such as Half yearly disclosures, half yearly results, annual report	
Scheme factsheet	
Scheme specific disclosures	Refer the format given below

Format for Scheme Specific Disclosures (on weblink):

Portfolio rebalancing	Timeline to be provided. For detailed disclosure, kindly refer SAI
Disclosure w.r.t investments by key personnel and AMC directors including regulatory provisions	Amount of investment to be provided For detailed disclosure, kindly refer SAI
Investments of AMC in the Scheme	Amount of investment to be provided For detailed disclosure, kindly refer SAI
Taxation	For details on taxation please refer to the clause on Taxation in the SAI
Associate Transactions	For detailed disclosure, kindly refer SAI
Listing and transfer of units	
Dematerialization of units	
Minimum Target amount	

(This is the minimum amount required to operate the scheme and if this is not collected during the NFO period, then all the investors would be refunded the amount invested without any return.)	
Maximum Amount to be raised (if any)	
Dividend Policy (IDCW)	
Allotment (Detailed procedure)	Mention, the procedure for allotment and dispatch of account statements/unit certificates. Indicate the time period. Mention the number of days within which the statement shall be dispatched to the unitholders who subscribe to the units when the scheme is open for continuous subscription after NFO as per the applicable guidelines.
Refund	If application is rejected, full amount will be refunded in terms of applicable provision of Master circular dated June 27, 2024
Who can invest This is an indicative list and investors shall consult their financial advisor to ascertain whether the scheme is suitable to their risk profile	
Who cannot invest	
The policy regarding reissue of repurchased units, including the maximum extent, the manner of reissue, the entity (the scheme or the AMC) involved in the same.	
Restrictions, if any, on the right to freely retain or dispose of units being offered.	
Cut off timing for subscriptions/redemptions/ switches This is the time before which your application (complete in all respects) should reach the official points of acceptance.	
Minimum balance to be maintained and consequences of non-maintenance	
Accounts Statements	Timeline and other details to be mentioned in terms of applicable provision of Master circular dated June 27, 2024

	For further details, refer SAI.
Dividend/ IDCW	The payment of dividend/IDCW to the unitholders shall be made within seven working days from the record date.
Redemption	Timeline and other details to be mentioned in terms of applicable provision of Master circular dated June 27, 2024 For further details, refer SAI.
Bank Mandate	
Delay in payment of redemption/ repurchase proceeds/dividend	Timeline and other details to be mentioned in terms of applicable provision of Master circular dated June 27, 2024 For further details, refer SAI.
Unclaimed Redemption and Income Distribution cum Capital Withdrawal Amount	Details to be mentioned in terms of applicable provision of Master circular dated June 27, 2024 For further details, refer SAI.
Disclosure w.r.t investment by minors	Details to be mentioned in terms of applicable provision of Master circular dated June 27, 2024 For further details, refer SAI.
Principles of incentive structure for market makers (for ETFs)	
