



Association of Mutual Funds in India

C-701 Naman Corporate Link, Plot Nos. C-31 / C-32, G Block, Bandra Kurla Complex, Bandra – East, Mumbai – 400 051

135/BP/ 100 /2022-23

April 26, 2022

To,

All AMFI Members

Dear Members,

AMFI Best Practice Guidelines Circular No.100/2022-23

Guidelines for Uniform implementation of SEBI circular SEBI/ HO/IMD/IMD-IDOF5/P/CIR/2021/624 dated September 2, 2021 on Alignment of interest of AMCs with the Unitholders of MF Schemes.

As per the amended SEBI regulations, i.e., sub-regulation 16(A) in Regulation 25 of SEBI (Mutual Funds) Regulations, 1996 ('MF Regulations'), asset management companies ('AMCs') are required to invest such amount in such scheme(s) of the mutual fund, based on the risk associated with the scheme, as may be specified by SEBI from time to time. The provisions of the aforesaid Regulations will come into force on the 270th day from the date of notification, i.e., w.e.f. April 29, 2022.

In this regard, SEBI has, vide circular no. SEBI/ HO/IMD/IMD-IDOF5/P/CIR/2021/624 dated September 2, 2021 on 'Alignment of interest of AMCs with the Unitholders of the Mutual Fund Schemes' mandated that AMCs shall invest minimum amount as a percentage of assets under management ('AUM') in their scheme(s) based on the risk value assigned to the scheme(s) as specified in the above circular.

In the above context, AMFI had received several queries from members w.r.t. some of the provisions in the aforesaid circular, which were referred to AMFI Operations and Compliance Committee.

The matter was discussed by the members of Ops Committee with SEBI and based on the guidance of SEBI, the Committee has provided the clarifications as mentioned in Annexure A, which have been duly endorsed the Board of AMFI for uniform implementation by all members as AMFI Best Practice Guidelines.

Members are requested to take note of the same for uniform implementation. Members are also requested to place the same before their Trustee & AMC Boards for information at their next meeting.

With best regards,

B. M. Kini
Dy. Chief Executive



Clarifications for Implementation of SEBI Circular no. SEBI/HO/IMD/IMD-IDOF5/P/CIR/2021/624
dated September 2, 2021 on **Alignment of interest of AMCs with the Unitholders of MF Schemes**

Clause Ref #	Clause Content	Clarifications
1.	Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2021 ('MF Amendment Regulations') was notified on August 05, 2021 (https://www.sebi.gov.in/legal/regulations/aug-2021/securities-and-exchange-board-of-india-mutual-funds-second-amendment-regulations-2021_51695.html) and the provisions of the said Regulations will come into force on the 270 th day from the date of notification.	Based on the date of gazette notification (August 5, 2021), 270 th day falls on May 2, 2022. However, the amended regulation specifies the effective date as April 29, 2022, in the footnote against Regulation 16A. On a conservative basis the effective date shall be April 29, 2022.
4 (a)	The risk value of the scheme as per the risk-o-meter of the immediately preceding month shall be considered	For NFO, Riskometer / Risk value disclosed in the NFO SID shall be considered.
4 (c)	AMCs shall, except in case of close ended scheme(s), conduct a quarterly review to ensure compliance with the requirement of investment of minimum amount in the scheme(s) which may change either due to change in value of the AUM or in the risk value assigned to the scheme. Further, based on review of quarterly average AUM, shortfall in value of the investment in scheme(s), if any, shall be made good within 7 days of such review. AMC shall have the option to withdraw any excess investment than what is required pursuant to such review.	Investment by AMC shall be calculated as a straight percentage of Quarterly Avg. Assets under Management (QAAuM) and not based on inclusive method. QAAuM shall be as disclosed quarterly on AMFI & AMC website. For determining the incremental investment or withdrawal by AMC for existing schemes as on April 28, 2022, QAAuM for Jan to March 2022 shall be used. Excess/shortfall shall be determined considering the market value of AMC's investments based on the last declared NAV of the quarter (NAV as on March Quarter end, say 31-March 2022, for investment/withdrawal by April 29, 2022). In case of NFO, AMC's investment shall be made during the allotment of units and shall be calculated as a percentage of the final allotment value excluding AMC's investment pursuant to this circular. The same shall be disclosed in the SID. Please refer to clause 5 below relating to adjustment of mandatory contribution made by the AMC or sponsor pursuant to Regulation 28(4) and 28(5). Please refer to illustrations in Appendix I .

Clause Ref #	Clause Content	Clarifications
4 (e)	<p>AMCs shall not be required to invest in ETFs, Index Funds, Overnight Funds, Funds of Funds scheme(s) and in case of close ended funds wherein the subscription period has closed as on date of coming into force of MF Amendment Regulations.</p>	<p>AMCs shall be required to invest in FoF investing in Overseas Funds or Third-party funds. It may be noted that further investment by AMC in domestic FoF investing in schemes within the same mutual fund has been exempt since AMC will be required to invest in the underlying schemes.</p> <p>Further, as fresh subscriptions in schemes intending to invest in overseas securities and funds other than ETF have been currently suspended to avoid breach of industry wide overseas investments limit, the investment by AMC in such schemes shall be made within seven days of the date that subscriptions are permitted.</p> <p>Closed ended schemes with last day of NFO on or before April 28, 2022 shall be exempt.</p> <p>Passively managed closed ended Index and FoF schemes (other than those investing in overseas or third-party funds) will continue to be exempt post April 29, 2022.</p>
5	<p>The mandatory contribution already <u>made by the AMCs</u> in compliance with the applicable MF Regulations shall not be withdrawn. However, such contribution can be adjusted against the investment required by the AMC as per this circular.</p> <p><u>Relevant extract of applicable Regulations for easy reference (not part of the circular):</u></p> <p>28(4): <i>The sponsor or asset management company shall invest not less than one percent of the amount which would be raised in the new fund offer or fifty lakh rupees, whichever is less, and such investment shall not be redeemed unless the scheme is wound up</i></p> <p>28(5): <i>The sponsor or asset management company of schemes existing as on date of notification of the SEBI (Mutual Funds)</i></p>	<p>Under Regulation 28(4) and 28(5) mandatory contributions [1%/50L] could be made either by the AMC or the Sponsor.</p> <p>Mandatory contribution made by the <u>sponsors or the AMCs</u> pursuant to Regulation 28(4) and 28(5) can be adjusted against the investment required to be made by the AMC under this circular.</p> <p>Mandatory contribution shall be the market value of such contributions in terms of units (including past and future corporate actions thereon) made by the AMC/Sponsor based on the last declared NAV of the quarter.</p> <p>Mandatory contribution in terms of units (including past and future corporate actions thereon) already made pursuant to Regulation 28(4) and 28(5) in schemes including those which are now exempt viz. ETFs, Index Funds, Overnight Funds, Funds of Funds scheme(s) shall not be withdrawn, irrespective of its market value and continue to remain invested post April 29, 2022.</p>

Clause Ref #	Clause Content	Clarifications
	<i>Amendment) Regulations, 2014 shall invest not less than one percent of the assets under management of the scheme as on date of notification of these regulations or fifty lakh rupees, whichever is less, in the growth option of the scheme and such investment shall not be redeemed unless the scheme is wound up</i>	Effective April 29, 2022, the AMC investment shall be the higher of: (a) Market value of units (including past and future corporate actions thereon) representing the mandatory contribution by AMC/Sponsor investment made pursuant to Regulations 28(4)) & 28(5), Or (b) Amount determined by applying the Risk Value % on the QAAuM. Please refer to illustrations in Appendix I
7.	Details of investment by AMCs in each of their mutual fund scheme(s) shall be disclosed on the website of AMCs and AMFI.	Market value of AMC's/Sponsor's investments in schemes pursuant to this circular, including the mandatory contribution made pursuant to Regulations 28(4)) & 28(5), shall be disclosed on a Quarterly basis, after rebalancing the AMC's investments as required under clause 4(c) , no later than the end of the month following the quarter end.
8.	The provisions of this circular shall come into force on the date of applicability of the MF Amendment Regulations as referred under para 1 of this circular. SEBI circular SEBI/HO/IMD/DF4/CIR/P/2020/100 dated June 12, 2020 shall stand rescinded from such date.	As explained in clause 1, the effective date shall be April 29, 2022.



Appendix I

A. As on April 28, 2022

			<u>Scheme A</u>	<u>Scheme B</u>	<u>Scheme C</u>
QAAuM for Jan to Mar, 2022	INR Crs.	A	1,500	500	250
Risk Value Based on March 2022 end portfolio			High	High	High
Minimum % of AuM to be invested	%	B	0.11%	0.11%	0.11%
Investment by AMC based on risk value	INR Crs.	$C = A * B$	1.65	0.55	0.28
No of Units under Mandatory Contribution pursuant to Reg 28(4), 28(5)	units	D	2,00,000	1,00,000	1,00,000
NAV as on 31 March 2022	INR	E	50.00	70.00	30.00
Market Value of Mandatory Contribution	INR Crs.	$F = D * E$	1.00	0.70	0.30
Investment to be maintained by the AMC under this circular (including Mandatory Contribution)*	INR Crs.	$G = \text{Max (C or F)}$	1.65	0.70	0.30
Required Investment by AMC (other than the Mandatory Contribution)			0.65	-	-

B. Subsequent Quarter Review (June 30, 2022)

			<u>Scheme A</u>		
			<u>Scenario 1</u>	<u>Scenario 2</u>	<u>Scenario 3</u>
QAAuM for Apr to Jun, 2022	INR Crs.	A	500	1,500	2,000
Risk Value Based on June 2022 end portfolio			High	High	High
Minimum % of AuM to be invested	%	B	0.11%	0.11%	0.11%
Investment by AMC based on risk value	INR Crs.	$C = A * B$	0.55	1.65	2.20
No of Units under Mandatory Contribution pursuant to Reg 28(4), 28(5)	units	D	2,00,000	2,00,000	2,00,000
NAV as on June 30, 2022*	INR	E	60.00	60.00	60.00
Market Value of Mandatory Contribution	INR Crs.	$F = D * E$	1.20	1.20	1.20
Investment to be maintained by the AMC under this circular (including Mandatory Contribution)*	INR Crs.	$G = \text{Max (C or F)}$	1.20	1.65	2.20
Required Investment by AMC (other than Mandatory Contribution)			-	0.45	1.00
Market Value of existing AMC investment (other than Mandatory Contribution)*			0.78	0.78	0.78
Incremental investment by AMC / (Withdrawal) within 7 days of review			(0.78)	(0.33)	0.22

* assumed MTM of 20%

C. NFO on or After April 28, 2022

Scheme C

Allotment value (prior to AMC investment)	INR Crs		1000	
Riskometer / Risk value disclosed in the NFO SID			High	
Minimum % of AuM to be invested	%		0.11 %	
Amount to be invested by AMC	INR Crs.		1.10	
Final allotment value	INR Crs.		1,001.10	