



**ICAI - WIRC**

**Changes in SEBI Regulations for  
Mutual Funds, Portfolio Mangers,  
brokers, custodian, AIF etc.**

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**September 13, 2014**

# **SEBI (Mutual Fund) Regulations (Post September 2012)**

# MF Regulations – Net worth

## SEBI (Mutual Funds) (Amendment) Regulations, 2014

- Increase in net worth of AMC from 10 Crs. to 50 Crs. Existing AMCs have been given time period of 3 years to comply with the said Regulation i.e. May 2017. (Cost Inflation Index 281 (1996), 447(2003), 939(2014) makes value of 10 Cr. to 33.5 Cr.)
- Compulsory investment by sponsor or AMC in each scheme (other than close-ended schemes) 1% of amount raised in NFO or Rs. 50 lakhs whichever is less. Investment to be made in growth option and no redemption is possible till the scheme is wound up. In case of existing schemes investment is to be made within 1 year from the date of notification i.e. before May 2015



# MF Regulations – Scheme AUM

- **(Circular No. Cir/IMD/DF/15/2014 dated June 20, 2014).**

In case of debt and balanced schemes, minimum AUM needs to be Rs. 20 Crores while in other schemes it needs to be Rs. 10 Crores. An average AUM of Rs. 20 Crore on half yearly rolling basis shall be maintained for open ended debt oriented schemes. Existing schemes to comply within 1 year from the date of the circular i.e. on or before June 20, 2015. In case of breach, cooling period of 6 months is allowed to scale up the AUM, failing which, scheme needs to be wound up. Confirmation in this regard is to be provided to SEBI through half-yearly trustees report



# MF Regulations - Expenses

- Total expense ratio was increased by 20 bps 2.70% of AUM and Service Tax on AMC fees is allowed over and above this limit.
- Additional charge up to 30 bps on scheme AUM in case investment in B15 cities is more than (a) 30% of gross new inflows in the scheme or (b) 15% of the average assets under management (year to date) of the scheme, whichever is higher. This additional expenses needs to be clawed back if B15 investor redeems within 1 year from the date of investment.
- Exit load charged is to be credited to scheme as income of the scheme.
- Only 2 plans are allowed in any scheme – direct and regular
- Setting apart 2 bps of daily AUM for investor education and awareness



# MF Regulations – Investment

- Investment in single industry sector not to exceed 30% of Debt Scheme AUM. Additional exposure of 10% is allowed for housing finance companies.
- To bring in uniformity in pricing of debt securities of all mutual funds, AMFI has implemented Security Level pricing in case of securities having maturity of more than 60 days w.e.f. November 30, 2013.



# MF Regulations – Voting

- Disclosure of votes cast by MFs
  - AMCs to record and disclose specific rationale supporting their voting decision w.r.t. each vote
  - Disclosure of the votes cast to be made on website on quarterly basis within 10 working days from the end of the quarter. Also to be disclosed in Annual report. Auditor's certificate to be obtained on yearly basis in this regard. This certificate is to be submitted to trustees and disclosed in Annual report and website.
  - Boards to review and ensure that AMC has voted on all important decisions.



# MF Regulations – Investor Protection

- To provide investors an easy understanding of the kind of product/scheme they are investing in and its suitability to them, product labeling to be carried out and disclosed on front page of application forms, KIM, SID and all advertisements as follows:
  - Blue – principal at low risk.
  - Yellow – principal at medium risk.
  - Brown – principal at high risk.
- MFs to mandatorily print all literature related to Investor Education and awareness in regional languages. These campaigns to be conducted in regional languages in print as well as in electronic media.





# MF Regulations - Other changes

- Guidelines for employee dealing are not applicable in case of liquid schemes (Circular No. CIR/IMD/DF/10/2014 dated May 22, 2014)
- MFs to try to develop alternate distribution channels such as PSU banks and online distribution.
- Time limit for NFO period of Rajeev Gandhi Equity Saving Scheme (**RGESS**) increased to 30 days and A/c statements can be issued within 15 days instead of earlier limit of 5 days.



# MF Regulations - Other changes

- New cadre of distributors such as postal agents, retired government and semi-government officials (class III and above or equivalent) with a service of at least 10 years, retired teachers with a service of at least 10 years, retired bank officers with a service of at least 10 years, and other similar persons (such as Bank correspondents) as may be notified by AMFI/AMC from time to time, shall be allowed to sell units of simple and performing mutual fund schemes.

Simple and performing mutual fund schemes shall comprise of diversified equity schemes, fixed maturity plans (FMPs) and index schemes and should have returns equal to or better than their scheme benchmark returns during each of the last three years.

- Application forms to have provision to capture EUIN of the employee/relationship manager/ sales person of the distributor interacting with the investor for the sale of mutual fund products in addition to ARN of the distributor.



**SEBI (Portfolio Managers)  
Regulations  
(Post January 2012)**

# SEBI PMS Regulations

- In 2012, minimum investment amount was increased from Rs. 5 lakh to Rs. 25 lakh
- All listed as well as unlisted securities were required to be segregated and kept in separate client Account. Exception was made to investment in liquid schemes of mutual funds.



# SEBI (Alternate Investment Fund) Regulations 2012

# Provisions of AIF Regulations

- Came into force w.e.f. May 2012. More guidelines and reporting requirements were introduced by way of circulars in 2013 and 2014.
- It covers all the funds, other than mutual funds and collective investment schemes, which pools investment by collecting funds from investors and invest in accordance with a defined investment policy for the benefit of its investors.
- Venture Capital Funds would also need to obtain registration under this Regulation once the existing fund or scheme managed by the fund is wound up. VCF cannot launch any new scheme till registration under this Regulation is obtained.



## Provisions of AIF Regulations ...

- Minimum corpus in each scheme should be Rs. 20 Cr. In case AUM falls below the limit in case of open-ended funds, within 3 months the same needs to be regularised.
- Minimum value of investment per investor is Rs. 25 lakh
- Cat I – Unlisted investments, (VCF), No leveraging
- Cat III – Listed/unlisted securities, derivatives. Complex trading strategies, Can leverage e.g. Hedge Funds
- Cat II – Other than covered in Cat I and Cat III. No leveraging allowed except to meet day to day operations requirements



## Provisions of AIF Regulations ...

- Sponsor to have continuing interest in Fund not less than 2.5% of the corpus or Rs. 5 Cr. whichever is lower, in the form of investment in the Fund and such interest shall not be through the waiver of management fees. In case of Category III license, interest of the sponsor shall not be less than 5% of corpus or 10 Cr. whichever is less.
- No scheme can have more than 1,000 investors
- Manager or Sponsor shall disclose their investment in the AIF to the investors





# Provisions of AIF Regulations ...

- Collection of funds only through private placement.
- To issue investment memorandum (IM) or Private placement memorandum (PPM) in the prescribed format. Details of fees to be given in tabular format. Any change to PPM to be intimated to investors within 7 days. In case of change in fundamental attributes, exit option needs to be given to investors, without exit load.
- Before launching of scheme, PPM to be filed with SEBI along with fees. No fees for the first scheme.
- Category I and Category II Fund shall be close ended and tenure of fund to be determined at the time of application. Minimum tenure should be 3 years. Extension for both can be of 2 years with approval of 2/3<sup>rd</sup> of unit holders. In the absence of consent, within 1 year from expiry, all investments need to be liquidated.
- Category III may be open or close-ended.



# Provisions of AIF Regulations ...

- Units of close ended fund may be listed with tradable lot of Rs. 1 Cr. Listing only after final close of fund.
- Investment limits are specified for exposure to single investee company (25% for Cat I & II and 10% for Cat III). Category I and II funds to invest in unlisted companies while category III can invest in unlisted as well as listed companies
- Category I and II Funds may resort to borrowing but only for meeting temporary funding requirements of not more than thirty days, not more than four occasions in a year and not more than ten percent of the corpus. Category III Fund may engage into leverage up to 2 times of NAV and after having appropriate risk management in place.
- Need to appoint custodian if corpus is more than 500 Cr.
- Category I and Category II Alternative Investment Funds shall undertake valuation of their investments, at least once in every six months, by an independent valuer.



## Provisions of AIF Regulations ...

- In case of Cat I and II funds and cat III fund not leveraged, need to report to SEBI on quarterly basis and cat III fund which is leveraged, needs to report to SEBI on monthly basis, in the prescribed format.
- At the end of the financial year, CTR is to be submitted to trustees/sponsors and violation, if any, to be reported to SEBI.



# SEBI (Investment Advisors) Regulations 2013

# IA Regulations – Introduction

- No person shall act as an investment adviser or hold itself out as an investment adviser unless he has obtained a certificate of registration from the Board under these regulations. Not applicable to advisors who are already registered under other Regulations issued by SEBI/IRDA/PFRDA/ AMFI, a person who is CA/ICWA/CS/Advocate and provides investment advice incidental to his professional services, a person providing advice out of India. Not applicable to PM and Broker provided they comply with general obligation provided in Chapter III of these Regulations.



# IA Regulations – Provisions

- Investment advisers which are body corporate shall have a net worth of not less than twenty five lakh rupees. Investment advisers who are individuals or partnership firms shall have net tangible assets of value not less than rupees one lakh.
- Segregation of investment advisory activities from other activities needs to be maintained.
- IA not to enter into transactions on his own account for a period of 15 days of giving advice.
- IA needs to follow KYC procedures.
- IA shall obtain information from client such as age, investment objective, income details, existing investments, risk appetite, borrowings etc.
- All material facts and key features of the product need to be explained.



## IA Regulations – Provisions ...

- IA shall carry out risk assessment to ascertain risk appetite of the client, tools used for the same need to be proper, questions asked need to be clear, client needs to be communicated about his risk profile, same be reviewed periodically
- IA needs to ensure that advice is appropriate to risk profile of the client. There needs to be documented process for selecting investments based on client's risk profile.
- A disclosure is to be made to the client about material information of its business, disciplinary history, affiliation with other intermediaries etc.
- IA shall also disclose remuneration receivable by it or any of its associates for distribution of the products for which investment advice is to be provided.
- IA shall also disclose its holding in the same security



## IA Regulations – Provisions ...

- Following records need to be maintained in physical or electronic form for a period of 5 years.

Records of KYC of the clients, their risk profiling, suitability assessment, copies of agreements, investment advice provided, rationale of arriving at such advice duly signed, register containing list of clients, date of advice, nature of advice, products for which advice has been rendered, fees charged etc.

- Needs to have compliance officer
- Need to redress investor complaints promptly
- Executionary services are to be segregated from advisory business





# SEBI (Brokers and Sub-brokers) Regulations

# NSE circular on Order Management & Risk Management Systems

**NSE Circular No. NSE/INVG/22908 March 07, 2013**

- In order to facilitate effective surveillance mechanisms at the Member level, the Exchange would download the certain transactional alerts based on the trading activity on the Exchange.
- Members are required to identify clients on the basis of such alerts and seek explanations and documentary evidences against the trading activities. The members shall record its observations for such transactions and adverse observations if any shall be reported to the exchange within 45 days of the alert generation.



# NSE circular on Order Management & Risk Management Systems

- Members are required to carry out continuous due diligence of its clients and ensure that key KYC parameters are updated on periodic basis and latest information of the client needs to be updated in UCC database of the exchange.
- Members shall frame surveillance policy which shall be approved by the board. Quarterly review of the alerts generated and disposal of the same shall be conducted by the board.
- Internal auditor should review the implementation and effectiveness of the surveillance policy.



# NSE circular on Dealing with clients' funds and securities

## NSE Circular No. 169/2013 dated October 29, 2013

- The actual settlement of funds and securities shall be done by the Member, at least once in a calendar quarter or month, depending on the preference of the client
- For the purpose of settlement, the Member is allowed to settle across segments and across Stock Exchanges for a particular client.
- In respect of Derivative Market transactions, apart from the margin liability as on the date of settlement, the Member may retain additional margin requirement of maximum up to 125 % of margin requirement on the day of settlement to take care of any margin obligation arising in next 5 days.



# NSE circular on Dealing with clients' funds and securities ...

- To address the administrative/operational difficulties in settling the accounts of regular trading clients (active clients), the Member may retain an amount of up to Rs 10,000/- (net amount across segment and across stock exchanges), only after taking written consent of the client.(Not applicable in case of clients who have not traded even once during the last one month/quarter)

## **NSE circular No. NSE/INSP/26252 dated March 24,2014**

- The terms & conditions of prepaid brokerage schemes relating to advance collection of funds towards brokerage and other allied services must be properly documented and positive confirmation of the clients for availing such services/schemes be obtained.



# NSE circular on NISM certification

**NSE circular No. NSE/INSP/27495 dated September 02,2014**

- Persons associated with a registered stock-broker/trading member/clearing member who are involved in, or deal with, any of the below mentioned functions are required to have a valid NISM Series VII Certification:
  - (a) Assets or funds of investors or clients,
  - (b) Redressal of investor grievances,
  - (c) Internal control or risk management, and
  - (d) Activities having a bearing on operational risk



# SEBI (Depository Participants) Regulation

## SEBI DP Regulations - Dispatch of Account statement

- Circular No. CIR/MRD/DP/21/2014 dated July 1, 2014
- For accounts having zero balance and nil transactions, Participants have an option to send such a physical statement only for one year provided it complies with the following conditions:
  - Annual maintenance charge (AMC) not charged
  - Account continues to remain zero balance
  - DP has to send electronic statement of holding to BO and if a beneficial owner requests for a physical statement, the Participant has to provide the same.





# SEBI DP Regulations - DIS

SEBI circular CIR/MRD/DP/ 01/2014 dated January 07, 2014  
Applicable from 1<sup>st</sup> October 2014.

## Standardization of DIS:

- DIS is standardized across all DPs in terms of Serial Numbering, Layout and size of DIS
- DIS must bear a pre-printed serial number, DP ID, and a pre-printed/pre-stamped BO ID. Depositories to prescribe a standard method of serial numbering.
- Same DIS shall not be used for giving both market and off-market instructions OR transactions with multiple execution dates.



# SEBI DP Regulations –DIS ...

## Monitoring of DIS:

- Upon issuance, details of DIS issued to be informed to depository
- At the time of execution of DIS, DPs shall enter the serial number of DIS in the depository system for validation

## Scanning of DIS:

- DPs shall scan every DIS executed during a day along with all Annexures/ Computer printouts, if any, by the end of the next working day.
- Depositories shall ensure that their DPs have adequate infrastructure, systems and processes to implement scanning, storage and transfer



# SEBI (Foreign Portfolio Investments) Regulations 2014

# SEBI (FPI) Regulations 2014

- Effective from June 01, 2014
- Objective of the FPI Regulations is to simplify compliance requirements and have uniform guidelines for various categories of Foreign Portfolio Investors (FPIs) like FIIs including their sub-accounts, if any and Qualified Foreign Investors (QFIs)
- FII Regulations stand repealed and SEBI Circulars on QFIs stand rescinded



# SEBI (FPI) Regulations - Provisions

- Eligibility criteria for FPI which includes
  - Resident outside India,
  - Resident in a country which is signatory to the International Organisation of Securities Commission (IOSCO) Multilateral MoU or has signed a bilateral MoU with SEBI
  - Sufficient experience, good track record, be professionally competent, financially sound.
  - Should not have an “opaque structure”
- Designated Depository Participants (DDPs) are empowered to register FPI on behalf of SEBI. Registration by SEBI has been done away with for FIIs including their sub-accounts, if any



# SEBI (FPI) Regulations - Provisions ...

- Transitory provisions:
  - All existing FII or sub - account may, continue to buy, sell or otherwise deal in securities till the expiry of its registration as an FII or sub - account or until it obtains FPI registration, whichever is earlier
  - A QFI may continue to buy, sell or otherwise deal in securities, for a period of 1 year i.e. up to 7 January 2015 or until it obtains FPI registration, whichever is earlier



# Key differences between FII Regulations and FPI Regulations

Particular	FII Regulation	FPI Regulations
Regulatory Structure	2 Tier structure FIIs and Sub-accounts	No tiers
Registering Institution	SEBI	DDP on behalf of SEBI
Investment limit for Foreign Individual / Foreign Corporate	5% of issued capital	Below 10% of issued capital
Investment Limit in Equity Shares	Upto 10% of issued capital	Below 10% of issued capital
Investment in unlisted equity shares	Permitted	Not permitted
Issuance / subscription of ODIs (Participatory Notes)	Permitted for all FIIs (not Sub - accounts)	Permitted for Category I and Category II FPIs except for unregulated broad based funds



**Common directives issued to by SEBI  
to all SEBI Registered Intermediaries**



# Prevention of Money Laundering Act, PMLA, 2002 and FATCA

## SEBI circular No CIR/MIRSD/1/2014 dated March 12, 2014

- To designate a person as 'Designated Director' in addition to Principal Officer to comply with AML/CFT requirements.
- For record keeping requirement, the period is changed to 5 years from 10 years.
- Implementation of Foreign Accounts Tax Compliance Act (FATCA) due to agreement between US and Indian government India is now treated as having an IGA (Inter-governmental agreement) in effect from April 11, 2014. Indian Financial institutions have to register with US authorities and obtain Global Intermediary Identification No. (GIIN) by December 31, 2014.



# SEBI KRA Regulations, 2011

- Vide circular no. LAD-NRO/GN/2013-14/46/522 dated March 13, 2014, intermediaries need to verify and download client details from KRA system and not to take fresh KYC.
- Circular No. LAD-NRO/GN/2014-15/05/23483 dated August 11, 2014 states that entities regulated by other regulators in the financial sectors, which are specified by SEBI from time to time, may access KRA to check KYC of their clients



# Information regarding investor grievance redressal mechanism

## SEBI Circular CIR/MIRSD/3/2014 dated August 28, 2014

- Applicable to all SEBI registered intermediaries
- Requirement to display basic information regarding grievance redressal mechanism available to investors.
- The information needs to be displayed at all offices of the intermediaries.
- Format of disclosure:
  - Annexure A of the circular : Stock Brokers (including registered sub brokers and Authorised Persons), Depository Participants
  - Annexure B of the circular: for other intermediaries



# Information regarding investor redressal mechanism

## ■ Details to be disclosed:

- Name, email ID and contact numbers of the Compliance Officer
- Name, email ID and contact numbers of the CEO/Partner/Proprietor
- The website URLs, Contact numbers and email IDs of the relevant exchanges, in case the investor wishes to escalate the grievance
- State that investor may also lodge their grievances with SEBI at <http://scores.gov.in>. Toll free helpline number of SEBI office to be mentioned



# KYC norms applicable to all intermediaries

- Verification of PAN can be done through income tax website instead of insisting for original PAN card provided the client has also presented a proof of identity other than PAN card.
- SEBI has mandated all registered intermediaries to obtain sufficient information from their clients in order to identify and verify the identity of persons who beneficially own or control the securities account.
- The requirement for sending original KYC documents of the clients to the KRA has been removed.
- Format of KYC form modified to avoid duplication of information sought from the client.



# General Guidelines for dealing with Conflicts of Interest

## SEBI circular No. CIR/MIRSD/5/2013 dated 27/08/2013

These are guidelines for dealing with conflict of interest which inter alia includes implementation of system to identify, eliminate or manage conflict of interest situations.

- Intermediaries and their associate persons shall develop an internal code of conduct governing operations and formulate standards of appropriate conduct in the performance of their activities, and ensure to communicate such policies, procedures and code to all concerned
- Such entities shall conduct assessment of the existing policies on conflict of interest within 6 months and bring them in line with requirements of these guidelines.
- BoDs should periodically review the compliance of these guidelines.



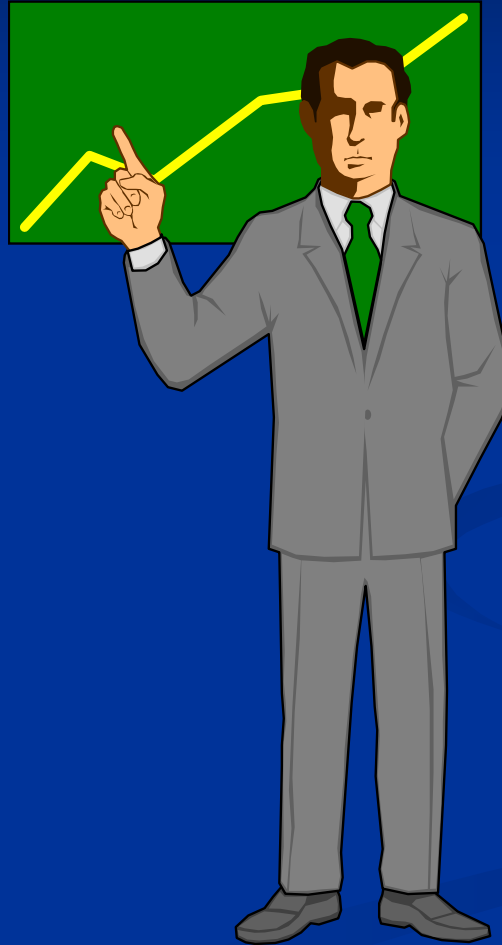
# Reporting of OTC trades in corporate bonds

**SEBI circular No. CIR/MRD/DP/10 /2014 dated 21/03/2014**

- All OTC trades in Corporate Bonds shall be reported only on any one of the reporting platform provided in the debt segment of stock exchanges viz NSE, BSE and MCX-SX within 15 minutes of the trade.



# Open House





**Thank you!**