

CONSULTATION PAPER ON EASE OF DOING BUSINESS INITIATIVES
FOR MUTUAL FUNDS

1. Objective

1.1. The objective of this consultation paper is to seek comments/ suggestions from public on the proposals regarding ease of doing business initiatives for Mutual Funds (MFs).

2. Background

2.1. The Hon'ble Finance Minister in the budget announcements for FY 2023-24, *inter-alia*, made an announcement to simplify, ease and reduce cost of compliance for participants in the financial sector through a consultative approach.

2.2. In order to align the process of review with the budget announcement, SEBI constituted various Working Groups to recommend measures to simplify and ease compliances under various SEBI Regulations. Accordingly, a working group for review of compliance requirements for MFs ("WG") was formed to review the present framework under SEBI (Mutual Funds) Regulations, 1996 ("MF Regulations") and circulars issued thereunder and recommend measures to promote the ease of doing business for MFs.

2.3. Further, in order to promote the ease of doing business and reduce the compliance burden, SEBI vide Press Release dated October 4, 2023 had also sought comments from the public on various Regulations including MF Regulations by November 06, 2023.

2.4. The comments received from the public regarding MF Regulations were forwarded to the WG for consideration in its final recommendation.

2.5. The WG has undertaken a comprehensive review of various processes and guidelines applicable to the MFs and has provided its interim recommendations on the following:

- a. Appointment of a single fund manager for domestic and overseas/commodity funds
- b. Relaxation of nomination requirement for joint holders.
- c. Streamlining of prudential norms for passive schemes w.r.t exposure to a single issuer within AMC's group companies.

This consultation paper provides details of the above-mentioned recommendations of the WG and seeks suggestions of the public on the same.

3. Issues for Public Consultation

3.1. Appointment of a single fund manager for domestic and overseas/commodity funds

3.1.1. Clause 3.3.11 of the Master Circular for Mutual Funds dated May 19, 2023, *inter-alia* states as under:

“For commodity based funds such as Gold ETFs, Silver ETFs and other funds participating in commodities market, a dedicated fund manager with relevant skill and experience in commodities market including commodity derivatives market shall be appointed to manage the fund. However, it is clarified that dedicated fund manager(s) for each Commodity based fund is not mandatory.”

3.1.2. Further, as per the clause 12.19 of the Master Circular on “Overseas Investment”, AMCs are required to appoint a dedicated fund manager for making overseas investments by respective MF schemes.

3.1.3. The WG has highlighted the following operational challenges in complying with the above requirements:

3.1.3.1. Appointment of dedicated fund managers leads to additional costs for the AMCs in terms of employing two fund managers.

3.1.3.2. Transactions done by fund managers in the overseas securities are comparatively less and therefore, a separate fund manager may not be required solely for overseas investment.

3.1.3.3. AMCs already hire research analysts at each security/ sector level irrespective of the same being a domestic/overseas investment. Therefore, the current provision w.r.t dedicated fund manager may be eased subject to certain conditions.

3.1.4. In this regard, the WG has recommended the following:

3.1.4.1. The current requirement w.r.t mandatory appointment of dedicated fund managers for commodity and overseas investments may be made optional, subject to the following:

a. AMCs shall ensure competency of the fund manager they choose to appoint and satisfy themselves that the fund manager has adequate expertise and experience required for such investments in commodities and overseas securities. The Board of the AMCs shall be responsible for ensuring compliance and reporting regarding the same to trustees, on a periodic basis.

Consultation Proposal 1

Please consider the proposals at paragraphs 3.1.4 above and provide your comments along with the supporting rationale.

3.2. Nomination for Mutual Fund units

3.2.1. Clause 17.16 of Master Circular *inter-alia* prescribes the requirement for nomination/opting out of nomination for all the existing individual unit holder(s) holding mutual fund units either solely or jointly, by September 30, 2023, failing which the folios shall be frozen for debits. Thereafter, based on the representations received from market participants, the aforesaid deadline for providing nomination/opting out of nomination had been extended to June 30, 2024.

3.2.2. With respect to the matter of nomination, the WG has highlighted following concerns:

3.2.2.1. In case of jointly held folios, the surviving holder(s) in a jointly held folio takes precedence over nominee during transmission of units. Hence, the risk of unclaimed units/ fraud in such cases would be low.

3.2.2.2. Further, confirmation is needed from all holders regarding the nominee. In instances where all holders are not available at the same time to register their nominee(s), the process is put on hold, thereby causing considerable delay in such cases.

3.2.3. *In view of the above, the WG has recommended that the requirement of Nomination may be made optional in case of jointly held folios.*

Consultation Proposal 2

Please consider the proposals at paragraphs 3.2.3 above and provide your comments along with the supporting rationale.

3.3. Streamlining prudential norms of passive schemes w.r.t exposure to a single stock of own group companies

3.3.1. Clause 9 of the Seventh schedule of the MF Regulations *inter alia* states that mutual fund scheme shall not make any investment in the listed securities of group companies of the sponsor, which is in excess of 25% of net assets.

3.3.2. Further, as per the paragraph 3.4.1.2 of the Master Circular, a single stock (issuer) cannot have more than 35% weight in the underlying index for a sectoral/ thematic Index based passive fund.

3.3.3. The WG has thus highlighted that while MF schemes (both active and passive) are not allowed to invest more than 25% of NAV in group companies of their sponsor, exposure to a single stock/issuer in case of

sectoral/thematic passive equity schemes is permitted up to 35% weight in the index.

3.3.4. Therefore, considering that for certain sectoral indices, the exposure to single issuer may be more than 25% and as passive funds are required to replicate respective underlying index, the existing sponsor group exposure limit at 25% may be relaxed for equity oriented ETFs/ Index Funds based on widely tracked and non-bespoke Indices.

3.3.5. In this regard, it is recommended that

Equity oriented ETFs and index funds, based on widely tracked and non-bespoke Indices, may be excluded from the requirement of investment limit of 25% in group companies of sponsors so that investments may be made in accordance with the weightage of the constituents of the underlying index avoiding any unintended tracking error.

Consultation Proposal 3

Please consider the proposals at paragraphs 3.3.5 above and provide your comments along with the supporting rationale.

4. Public Comments on this Consultation Paper

4.1. Public comments are invited for the proposals at paragraph 3.1, 3.2 and 3.3 above. The comments/ suggestions should be submitted by any of the following modes latest by March 15, 2024:-

4.1.1. Preferably through Online web-based form

4.1.1.1. The comments may be submitted through the following link:

<https://www.sebi.gov.in/sebiweb/publiccommentv2/PublicCommentAction.do?doPublicComments=yes>

- 4.1.1.2. The instructions to submit comments on the consultation paper are as under:
- a. Before initiating the process, please read the instructions given on top left of the web form as “Instructions”.
 - b. Select the consultation paper you want to comment upon from the dropdown under the tab – “Consultation Paper” after entering the requisite information in the form.
 - c. All fields in the form are mandatory;
 - d. Email Id and phone number cannot be used more than once for providing comments on a particular consultation paper.
 - e. If you represent any organization other than the types mentioned under dropdown in “Organization Type”, please select “Others” and mention the type, which suits you best. Similarly, if you do not represent any organization, you may select “Others” and mention “Not Applicable” in the text box.
 - f. There will be a dropdown of Proposals in the form. Please select the proposals one- by-one and for each of the proposal, please record your level of agreement with the selected proposal. Please note that submission of agreement level is mandatory.
 - g. If you want to provide your comments for the selected proposal, please select “Yes” from the dropdown under “Do you want to comment on the proposal” and use the text boxes provided for the same.
 - h. After recording your response to the proposal, click on “Submit” button. System will save your response to the selected proposal and prompt you to record your response for the next proposal. Please follow this procedure for all the proposals given in the dropdown.
 - i. If you do not want to react on any proposal, please select that proposal from the dropdown and click on “Skip this proposal” and move to the next proposal.
 - j. After recording your response to all the proposals, you may see your draft response to all of proposals by clicking on “Check your

response before submitting” just before submitting response to the last proposal in the dropdown. A pdf copy of the response can also be downloaded from the link given in right bottom of the web page.

- k. The final comments shall be submitted only after recording your response on all of the proposals in the consultation paper.

4.1.2. Through Email

- 4.1.2.1. In case of any technical issue in submitting your comment through web based public comments form, you may provide your comments through email to eodbmf_comments@sebi.gov.in with a subject: "Consultation Paper on Ease of Doing Business Initiatives for Mutual Funds".

4.1.3. Through Post

- 4.1.3.1. Alternately, comments may be sent by post to:

Shri Lakshaya Chawla, DGM

Investment Management Department

Securities and Exchange Board of India,

SEBI Bhavan, C4-A, G-Block,

Bandra Kurla Complex, Bandra (East), Mumbai -400051

- 4.1.3.2. Kindly use the below format for sending comments by post:

| Name of the person/entity proposing comments: | | | | |
|---|----------------------------|----------------|---|------------------|
| Name of the organization (if applicable): | | | | |
| Email Id: | | | | |
| Contact details: | | | | |
| Category: whether market intermediary/ participant (mention type/ category) or Public (investor, academician etc.) | | | | |
| Sr. No. | Relevant paragraphs | sub- of | Comments/suggestions (with page/para nos., | Rationale |

| | proposals mentioned at paragraph 3 | if applicable) | |
|--|---------------------------------------|----------------|--|
| | Consultation 1 | | |
| | Consultation 2 | | |

4.1.3.3. While sending the post, kindly mention the subject of the communication as, “Consultation Paper on Ease of Doing Business Initiatives for Mutual Funds”.

Issued on: February 23, 2024

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(End of Consultation Paper)