

CIRCULAR

SEBI/HO/IMD/DF2/CIR/P/2020/253

December 31, 2020

**All Mutual Funds (MFs)/
Asset Management Companies (AMCs)/
Trustee Companies/ Boards of Trustees of Mutual Funds/
Association of Mutual Funds in India (AMFI)**

Sir / Madam,

Subject: Circular on Mutual Funds

A. Uniformity in applicability of Net Asset Value (NAV) across various schemes upon realization of funds:

1. In terms of paragraph 1 of SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2020/175 dated September 17, 2020, the uniform applicability of NAV in respect of purchase of units of mutual fund schemes upon realization of funds, was to come into effect from January 1, 2021.
2. Upon consideration of the subsequent representation received from AMFI regarding operational challenges, it has been decided to extend the date of applicability of the aforementioned provision to February 1, 2021.

B. Trade Execution and Allocation:

1. In partial modification to paragraph 2 on 'Trade Execution and Allocation' of SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2020/175 dated September 17, 2020, the following has been decided:
 - i. Clause a) of paragraph 2.2.1 on orders pertaining to equity and equity related instruments of the aforesaid circular is modified as under:

“(1) AMCs shall use an automated Order Management System (hereinafter referred to as ‘OMS’), wherein the orders for equity and equity related instruments of each scheme shall be placed by the fund manager(s) of the respective schemes. However, a fund manager may authorize an employee of the AMC for order placement on his behalf, subject to adherence to the following:

- a. *The order instructions to such employee by the fund manager shall be through electronic mode i.e. either through e-mail or other electronic utility, wherein schemewise audit trail of such orders starting from the instruction of the fund manager is maintained along with time stamping of each stage of the process.*
- b. *The employee placing the order shall be bound by the same requirements of maintaining confidentiality and the code of conduct as applicable to the fund manager in this regard i.e. in respect of order placement.*

(2) Further, the orders in case of arbitrage transactions, stock lending and borrowing transactions, passive schemes (such as Index Funds and ETFs) and schemes investing primarily based on pre-defined rules and models, where the discretion of the fund manager is not required for placement of order, is not mandated to be placed through OMS, subject to the following:

- a. *The AMC shall document and demonstrate that no judgement and discretion of the fund manager is required for placement of such orders.*
- b. *The AMCs shall ensure that orders in breach of applicable regulatory limits and allocation limits as specified in Scheme Information Documents (SIDs), should not be placed and executed.*
- c. *The fund manager shall provide the schemewise details as required for order placement such as value of transaction(s), nature of transaction(s), etc. to the dealer.*
- d. *The schemewise audit trail of placement of orders (including the information provided by the fund manager), order execution and trade allocation shall be maintained along with time stamping of each stage of the process.*

(3) At all points of time, the responsibility associated with order placement shall continue to vest with the fund manager.”

- ii. Clause d) of Paragraph 2.2.1 of the aforesaid circular is modified as under:

“All orders of fund manager(s) shall be received by dedicated dealer(s) responsible for order placement and execution. However, in case of orders for arbitrage transactions, stock lending and borrowing transactions, passive schemes (such as Index Funds and ETFs) and schemes investing primarily based on pre-defined rules and models, the requirement of a dedicated dealer shall not be mandatory.”

iii. Paragraph 2.3.2 of the aforesaid circular is modified as under:

“Audit trail of activities as detailed in paragraph 2.2.1 related to order placement, trade execution and allocation shall be available in the system. Further, there should be time stamping with respect to order placed by fund manager (or the order placed by the employee of the AMC authorized by the fund manager), order placed by dealer, order execution and trade allocation in the OMS. The audit trail and time stamping of all other orders (including orders through RFQ platform) not placed through OMS shall also be adequately maintained.

- C. All other conditions specified in SEBI circular dated September 17, 2020 shall remain unchanged.
- D. This circular is issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, read with the provisions of Regulation 77 of SEBI (Mutual Funds) Regulations, 1996, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

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