



CIRCULAR

SEBI/HO/IMD/DF2/CIR/P/2018/137

October 22, 2018

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

Sir / Madam,

Subject: Total Expense Ratio (TER) and Performance Disclosure for Mutual Funds

A. Transparency in TER

In order to bring transparency in expenses, reduce portfolio churning and mis-selling in mutual fund (MF) schemes, the following shall be adhered to:

1. In terms of Regulation 52(1) of SEBI (Mutual Funds) Regulations, 1996, all scheme related expenses including commission paid to distributors, by whatever name it may be called and in whatever manner it may be paid, shall necessarily be paid from the scheme only within the regulatory limits and not from the books of the Asset Management Companies (AMC), its associate, sponsor, trustee or any other entity through any route.
2. MFs/ AMCs shall adopt full trail model of commission in all schemes, without payment of any upfront commission or upfronting of any trail commission, directly or indirectly, in cash or kind, through sponsorships, or any other route.



However, upfronting of trail commission will be allowed only in case of inflows through Systematic Investment Plans (SIPs).

3. In respect of inflows through SIPs into MF schemes, a carve out has been considered only for new investors to the MF industry (to be identified based on PAN). The upfronting of trail commissions, based on SIP inflows, shall be up to 1% payable yearly in advance, for a maximum period of three years. Implementation of this would require system integration at RTA's end. A detailed guideline would be issued in this regard.
4. However, in the interim, upfronting of trail commission based on SIP inflows at mutual fund level would be available subject to the following:
 - a. The upfronting of trail commission may be for total SIP inflows of upto Rs. 5,000 per month, per investor, across all schemes of a mutual fund. For this purpose, unique investor at MF level should be identified based on PAN.
 - b. Such upfronting of trail commission shall be up to 1% of the total SIP inflows for a maximum period of 3 years and shall be paid from AMC books.
 - c. The said commission shall be amortized on daily basis to the scheme over the period for which the payment has been made. A complete audit trail for payments made from the AMCs' books and amortized to schemes thereafter shall be made available for inspection.
 - d. The said commission should be charged to the scheme as 'commissions' and should also account for computing the TER differential between regular and direct plans in each scheme.
 - e. The commission paid shall be recovered on pro-rata basis from the distributors, if the SIP is not continued for the period for which the commission is paid.



The above interim measures shall be for a period of six months or the time by which the aforementioned system at paragraph 3 above is put in place, whichever is earlier.

5. In case of misuse of the carve out for SIPs, the same would be discontinued and appropriate action would be taken against the errant participants. Further, the need of this carve out would be reviewed by SEBI as and when required.
6. All fees and expenses charged in a direct plan (in percentage terms) under various heads including the investment and advisory fee shall not exceed the fees and expenses charged under such heads in a regular plan.
7. No pass back, either directly or indirectly, shall be given by MFs/ AMCs/ Distributors to the investors.
8. Training sessions and programmes conducted for distributors should continue and should not be misused for providing any reward or non-cash incentive to the distributors.

B. Additional TER of 30 bps for penetration in B-30 cities

1. In terms of Regulation 52(6A)(b) of SEBI (Mutual Funds) Regulations, 1996, additional TER can be charged upto 30 basis points on daily net assets of the scheme based on inflows from beyond top 30 cities (B 30 cities) subject to certain conditions. In this regard, it has been decided that the additional TER can be charged based on inflows only from retail investors from B 30 cities. Till the time the term 'retail investor' is defined, as an interim measure, the additional TER shall be based on inflows from individual investors from B 30 cities, keeping all other conditions of SEBI Circular(s) on charging of additional TER of 30 bps unchanged. Thus, inflows from corporates and institutions from



B 30 cities henceforth will not be considered for computing the inflows from B 30 cities for the purpose of additional TER of 30 basis points.

2. The additional commission for B 30 cities shall be paid as trail only.
3. All applicable circulars on charging of additional TER of 30 basis points stands modified accordingly.

C. Disclosure of expenses

Paragraph A-2 (b) of Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/89 dated September 20, 2016 on 'Consolidated Account Statement' has been modified as under:

“The scheme’s average Total Expense Ratio (in percentage terms) along with the break up between Investment and Advisory fees, Commission paid to the distributor and Other expenses for the period for each scheme’s applicable plan (regular or direct or both) where the concerned investor has actually invested in.”

D. Disclosure of scheme performance

AMCs shall disclose the performance of all schemes on the website of AMFI. AMFI shall facilitate the disclosure in the following manner:

1. In case of all schemes, the scheme returns vis-à-vis the benchmark return (Total Return Index) shall be disclosed in terms of CAGR for various periods viz. 1 year, 3 year, 5 year, 10 year and since inception.
2. In addition to the above, in case of schemes falling in categories such as overnight fund, liquid fund, ultra short duration fund, low duration fund, and



Money Market Fund as defined in Circular dated October 6, 2017 on Categorization and Rationalization of Mutual Fund Schemes, scheme performance is also to be disclosed for a period of 7 days, 15 days, 1 month, 3 months and 6 months.

3. The said disclosure should be made for all plans and shall be updated daily based on previous day NAV.
 4. The said disclosure should be in investor friendly format with filtering feature based on scheme-type, plan-type, etc and sorting feature based on return periods.
 5. The disclosure should include other important fields such as scheme AUM and previous day NAV.
- E.** Trustees and AMCs shall ensure compliance of the provisions mentioned at paragraph A, B, C and D above and trustees shall confirm the same to SEBI in the half yearly trustee report.

F. Applicability

1. All the provisions of the circular except for the provision at paragraph D on Disclosure of scheme performance shall be applicable with immediate effect.
2. The disclosure of scheme performance as provided at paragraph D shall be applicable within 30 days from date of issuance of the circular.
3. All other decisions of the Board with respect to 'Review of Total Expense Ratio (TER) of Mutual Fund Schemes' as mentioned in the press release dated September 18, 2018 issued by SEBI would be implemented pursuant to amendment to SEBI (Mutual Funds) Regulations, 1996.



- G.** 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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