

MUTUAL FUNDS - CLARIFICATION ON DUE DILIGENCE PROCESS OF DISTRIBUTORS

CIRCULAR NO. IMD/DF/7/2012, DATED 28-2-2012

A. Distributor Due Diligence

1. Please refer to SEBI circular no. IMD/DF/13/2011, dated August 22, 2011 regarding the captioned matter.
2. It is hereby clarified that the due diligence of distributors is solely the responsibility of mutual funds/AMCs. This responsibility shall not be delegated to any agency. However, mutual funds/AMCs may take assistance of an agency of repute while carrying out due diligence process of distributors.

B. Clarification to Regulation 24 of SEBI (Mutual Funds) Regulations, 1996

1. In order to address the issue of conflict of interest wherein a fund manager manages schemes of Mutual Fund and is engaged in other permissible activities of AMC, SEBI has amended Regulation 24 of the SEBI (Mutual Funds) Regulations, 1996.
2. The amended Regulation mandates that AMCs shall appoint separate fund manager for each separate fund managed by it unless the investment objectives and assets allocations are the same and the portfolio is replicated across all the funds managed by the fund manager.
3. It has been represented to SEBI that the perfect replication of portfolio between the mutual fund scheme and schemes/products under other permissible activities of AMC may not be achieved at all times.
4. On examination of the same, it has been decided that the replication of minimum 70% of portfolio value shall be considered as adequate for the purpose of said compliance, provided that AMC has in place a written policy for trade allocation and it ensures at all points of time that the fund manager shall not take directionally opposite positions in the schemes managed by him.
5. In order to bring transparency while addressing the issue of conflict of interest wherein a fund manager is common across mutual fund schemes and schemes/products under other permissible activities of AMC, then the AMC shall :
 - (a) disclose on their websites, the returns provided by the said manager for all the schemes (mutual fund, pension funds, offshore funds etc.) on a monthly basis.
 - (b) in case of any performance advertisement is issued by the AMC for any scheme, then the details of returns of all the schemes (mutual fund, pension funds, offshore funds etc.) managed by that fund manager shall be provided.
 - (c) in case the difference between the annual returns provided by the schemes managed by the same fund manager is more than 10% then the same shall be reported to the trustee and explanation for the same shall be disclosed on the website of the AMC.

C. 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.