

SECURITIES AND EXCHANGE BOARD OF INDIA**NOTIFICATION**

Mumbai, the 29th October, 2020

SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS)**(SECOND AMENDMENT) REGULATIONS, 2020**

No. SEBI/LAD-NRO/GN/2020/39.—In exercise of the powers conferred by section 30 read with clause (c) of sub-section (2) of section 11 of the Securities and Exchange Board of India Act, 1992 (15 of 1992), the Board hereby makes the following regulations to further amend the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, namely—

1. These Regulations may be called the Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2020.
2. They shall come into force on the date of their publication in the Official Gazette.
3. In the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996,—

I. In sub-regulation (22) of Regulation 18, after the words “specified in” and before the words “the Fifth Schedule”, the words and symbol “PART-A of” shall be inserted.

II. Third Proviso to clause (b) of regulation 24 shall be substituted with the following, namely—

“Provided further that an asset management company may become a proprietary trading member for carrying out trades in the debt segment of the recognised stock exchanges, on behalf of its mutual fund schemes and may also become a self-clearing member of the recognised clearing corporations to clear and settle trades in the debt segment on behalf of its mutual fund schemes.”

III. In Regulation 25,

i. In sub-regulation (6A), the words “whatever his designation may be” shall be substituted with the words “whatever be the designation”.

ii. sub-regulation (6A) shall be numbered as clause (a) thereof and after clause (a) so numbered, the following clause shall be inserted, namely—

“(b) Chief Executive Officer (whatever be the designation) shall also ensure that the Asset Management Company has adequate systems in place to ensure that the Code of Conduct for Fund Managers and Dealers specified in PART - B of the Fifth Schedule of these regulations are adhered to in letter and spirit. Any breach of the said Code of Conduct shall be brought to the attention of the Board of Directors of the Asset Management Company and Trustees.”

iii. In sub-regulation (6B), the words “whatever the designation may be” shall be substituted with the words “whatever be the designation”.

iv. sub-regulation (6B) shall be numbered as clause (a) thereof and after clause (a) so numbered, the following clause shall be inserted, namely—

“(b) The Fund Managers (whatever be the designation) shall abide by the Code of Conduct for Fund Managers and Dealers specified in PART - B of the Fifth Schedule of Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 and submit a quarterly self-certification to the Trustees that they have complied with the said code of conduct or list exceptions, if any.

Explanation:- For the purposes of this sub-regulation, the phrase “Fund Managers” shall include Chief Investment Officer (whatever be the designation).”

v. After sub-regulation (6B) and before sub-regulation (7), the following sub-regulation shall be inserted, namely—

“(6C) (a) The Dealers (whatever be the designation) shall ensure that orders are executed on the best available terms, taking into account the relevant market at the time for transactions of the kind and size concerned to achieve the objectives of the scheme and in the best interest of all the unit holders.

(b) The Dealers (whatever be the designation) shall abide by the Code of Conduct for Fund Managers and Dealers specified in PART - B of the Fifth Schedule of the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 and submit a quarterly self-certification to the Trustees that they have complied with the said code of conduct or list exceptions, if any.”

- vi. In sub-regulation (16), after the words “specified in” and before the words “the Fifth Schedule”, the words and symbol “PART-A of” shall be inserted.

IV. In the Fifth Schedule,

- i. after the heading Code of Conduct, the following shall be inserted, namely—

“PART – A

For the Asset Management Company and Trustees”

- ii. after sub-clause (b) of clause 11, the following shall be inserted, namely—

“PART – B

[Regulations 25(6A)(b), 25(6B)(b), 25(6C)(b) and 68(h)]

For the Fund Managers and Dealers

General:

1. Dealers and Fund Managers shall:

- (a) ensure that investments are made in the interest of the unit holders;
- (b) strive for highest ethical and professional standards to enhance the reputation of the markets;
- (c) act honestly in dealings with other market participants;
- (d) act fairly and deal with market participants in a consistent and transparent manner;
- (e) act with integrity, particularly in avoiding questionable practices and behaviour;
- (f) abide by the Act, Rules, Regulations, Guidelines and Circulars governing the securities market and keep themselves up-to-date with the latest developments;
- (g) not indulge in any unethical business activities or professional misconduct involving dishonesty, fraud or deceit or commit any act that could damage the reputation of the organisation or the mutual fund industry;
- (h) identify existing or potential conflicts of interest as per their institutions policies and address the same;
- (i) not carry out any transaction on behalf of a fund with any counter party who is an associate of the Sponsor/Asset Management Company/Fund Manager/Dealer/Chief Executive Officer unless such transaction is carried out on arm’s length basis on terms and at a price consistent with best execution standards and at a commission rate no higher than customary institutional rates;

For the purposes of this clause, the term associate shall have the following meaning:

- i. In case of an Asset Management Company, an associate as defined in Regulation 2(C) of Securities and Exchange Board of India (Mutual Funds) Regulations, 1996
- ii. In case of a Sponsor, associates as listed in their Financials

- iii. In case of a Fund Manager/Dealer/Chief Executive Officer, it shall include their relatives or any entity upon whom the Fund Manager/Dealer/Chief Executive Officer could exercise control;
- (j) not offer or accept any inducement in connection with the affairs or business of managing the funds of unitholders which is likely to conflict with the duties owed to the unitholders;
- (k) disclose all interests in securities as required by all applicable statutory requirements; and
- (l) not receive any gift or entertainment which is not in adherence of the gift and entertainment policy of the Asset Management Company framed in this regard.

Communication: Channels, disclosures and transparency:

2. Dealers and Fund Managers shall:

- (a) always communicate in unambiguous, transparent, accurate and professional manner to promote effective communication that supports a transparent Market;
- (b) conduct all communication during market hours through recorded modes and channels only;
- (c) be encouraged to highlight and bring to the notice any instance of suspected malpractice or market misconduct to the appropriate risk, compliance and regulatory chains of command;
- (d) provide appropriate inputs to the valuation agencies or the valuation committee of the Asset Management Company. Any material deviation in valuation, as defined by the Asset Management Company, shall also be highlighted to the valuation agencies and valuation committee of the Asset Management Company.
- (e) on their discretion share views on market colour, general state of market or trends without disclosing confidential information;
- (f) not disclose any material non-public information that could affect the value of an investment to external parties and shall not act or cause others to act on such information; and
- (g) not intentionally disseminate false or misleading information with respect to the price or market for a security.

Execution Standards:

3.1. Fund Managers shall:

- (a) have an appropriate and adequate basis for investment decision and shall be responsible for investment in the funds managed by them;
- (b) record in writing, the decision of buying or selling securities together with the detailed justifications for such decisions; and
- (c) not indulge any act or practice which results in artificial window dressing of the NAV.

3.2. Dealers and Fund Managers shall:

- (a) adopt fair and prompt deal execution practices;
- (b) fully document all correspondence and understanding during a deal with counterparties in the books of the fund if they have committed to the transactions on behalf of the mutual fund;
- (c) not favour one scheme over another for the purpose of security allocation, transfer of benefits (profit/loss) or any valuation gain/ loss including by way of inter scheme transfers or otherwise;
- (d) not indulge in circular trading (by whatever name called) in any manner;
- (e) not enter or participate in transactions with the intent of disrupting the market, distorting the prices, or artificially inflating trading volumes;

- (f) not indulge in simultaneously buying and selling the same securities at off market prices in order to create false or misleading signals regarding the supply of, demand for, or market price of securities;
- (g) not manipulate the prices of infrequently traded securities including at monthly/quarterly /annual closing dates;
- (h) not enter into arrangements for sale or purchase of a security including a Government security where there is no change in beneficial interests or market risk or where the transfer of beneficial interest or market risk is only between parties who are acting in concert or collusion;
- (i) not carry out or participate in a ‘routing deal’ i.e. purchasing a security at the instance of a third party who does not have funds to purchase the security, with an understanding to sell the same to the said third party at a later date at a predetermined price which may or may not be market related;
- (j) not put misleading bids and offers outside the market range as defined by their institution without an intention to trade;
- (k) not make frivolous quotations with an intent to mislead the market participants; and
- (l) not sell securities to a third party at the month/quarter end with an understanding to purchase the same at a later date for any purpose including to meet periodic liquidity or to avoid month end disclosure.”

AJAY TYAGI, Chairman

[ADVT.-III/4/Exty./321/2020-21]

Footnote:

1. The Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, the Principal Regulations, were published in the Gazette of India on December 9, 1996 vide S.O. No. 856 (E).

2. The Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 were subsequently amended—

- (1) on April 15, 1997 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 1997 vide S.O. No.327 (E).
- (2) on January 12, 1998 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 1998 vide S.O. No.32 (E).
- (3) on December 08, 1999 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 1999 vide S.O. No.1223 (E).
- (4) on March 14, 2000 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2000 vide S.O. No.235 (E).
- (5) on March 28, 2000 by the Securities and Exchange Board of India (Appeal to the Securities Appellate Tribunal) (Amendment) Regulations, 2000 vide S.O. No.278 (E).
- (6) on May 22, 2000 by the Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2000 vide S.O. No.484 (E).
- (7) on January 23, 2001 by the Securities and Exchange Board of India (Mutual Funds)(Amendment) Regulations, 2001 vide S.O. No.69 (E).
- (8) on May 29, 2001 by the Securities and Exchange Board of India (Investment Advice by Intermediaries) (Amendment) Regulations, 2001 vide S.O. No.476 (E).
- (9) on July 23, 2001 by the Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2001 vide S.O. No.698 (E).
- (10) on February 20, 2002 by the Securities and Exchange Board of India (Mutual Funds)(Amendment) Regulations, 2002 vide S.O. No.219 (E).

- (11) on June 11, 2002 by the Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2002 vide S.O. No.625 (E).
- (12) on July 30, 2002 by the Securities and Exchange Board of India (Mutual Funds) (Third Amendment) Regulations, 2002 vide S.O. No.809 (E).
- (13) on September 9, 2002 by the Securities and Exchange Board of India (Mutual Funds)(Fourth Amendment) Regulations, 2002 vide S.O. No.956 (E).
- (14) on September 27, 2002 by the Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 vide S.O. No.1045 (E).
- (15) on May 29, 2003 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2003 vide S.O. No. 632 (E).
- (16) on January 12, 2004 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2004 vide F.No. SEBI/LAD/DOP/4/2004.
- (17) on March 10, 2004 by the Securities and Exchange Board of India (Criteria for Fit and Proper Person) Regulations, 2004 vide S.O. No. 398 (E).
- (18) on January 12, 2006 by the Securities and Exchange Board of India (Mutual Funds)(Amendment) Regulations, 2006 vide S.O. No. 38 (E).
- (19) on May 22, 2006 by the Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2006 vide S.O. No. 783 (E).
- (20) on August 3, 2006 by the Securities and Exchange Board of India (Mutual Funds) (Third Amendment) Regulations, 2006 vide S.O. No. 1254 (E).
- (21) on December 27, 2006 by the Securities and Exchange Board of India (Mutual Funds) (Fourth Amendment) Regulations, 2006 vide F. No. SEBI/LAD/DOP/82534/2006.
- (22) on December 27, 2006 by the Securities and Exchange Board of India (Mutual Funds) (Fifth Amendment) Regulations, 2006 vide F. No. SEBI/LAD/DOP/83065/2006.
- (23) on May 28, 2007 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2007 vide F. No. 11/LC/GN/2007/2518.
- (24) on October 31, 2007 by the Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2007 vide F. No. 11/LC/GN/2007/4646.
- (25) on March 31, 2008 by the Securities and Exchange Board of India (Payment of Fees) (Amendment) Regulations, 2008 vide F. No. 11/LC/GN/2008/21669.
- (26) on April 16, 2008 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2008 vide F. No. LADNRO/ GN/2008/03/123042.
- (27) on May 22, 2008 by the Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2008 vide No. LADNRO/GN/2008/09/126202.
- (28) on September 29, 2008 by the Securities and Exchange Board of India (Mutual Funds) (Third Amendment) Regulations, 2008 vide No. LADNRO/ GN/2008/24/139426.
- (29) on April 8, 2009 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2009 vide No. LAD-NRO/GN/2009-10/01/159601.
- (30) on June 5, 2009 by the Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2009 vide No. LAD- NRO/GN/2009-10/07/165404.
- (31) on July 29, 2010 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2010 vide No. LAD-NRO/GN/2010-11/13/13945.
- (32) on August 30, 2011 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2011 vide No. LAD-NRO/GN/2011-12/27668.
- (33) on February 21, 2012 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2012 vide No. LAD-NRO/GN/2011-12/38/4290.

- (34) on 26th September, 2012 by the Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2012 vide No. LAD-NRO/GN/2012-13/17/21502.
- (35) on 16th April, 2013 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2013 vide No. LAD-NRO/GN/2013-14/03/5652.
- (36) on 19th June, 2013 by the Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2013 vide No. LAD-NRO/GN/2013-14/12/6108.
- (37) on 19th August, 2013 by the Securities and Exchange Board of India (Mutual Funds) (Third Amendment) Regulations, 2013 vide No. LAD-NRO/GN/2013-14/18/6384.
- (38) on 6th May, 2014 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2014 vide No. LAD-NRO/GN/2014-15/01/1039.
- (39) on 23rd May, 2014 by the Securities and Exchange Board of India (Payment of Fees) (Amendment) Regulations, 2014 vide No. LAD-NRO/GN/2014-15/03/1089.
- (40) on 30th December, 2014 by the Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2014 vide No. LAD-NRO/GN/2014-15/19/1973.
- (41) on 15th May, 2015 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2015 No. NROOIAE/GN/2015-16/005.
- (42) on 12th February, 2016 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2016 vide No. SEBI/LAD-NRO/GN/2015-16/034.
- (43) on 15th February, 2017 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2017 vide No. SEBI/LAD/NRO/GN/2016-17/031.
- (44) on 13th March, 2018 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2018 vide No. SEBI/LAD-NRO/GN/2018/02.
- (45) on 30th May, 2018 by the Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2018 vide No. SEBI/LAD-NRO/GN/2018/14.
- (46) on 6th December, 2018 by the Securities and Exchange Board of India (Mutual Funds) (Third Amendment) Regulations, 2018 vide No. SEBI/LAD-NRO/GN/2018/50.
- (47) on 13th December, 2018 by the Securities and Exchange Board of India (Mutual Funds) (Fourth Amendment) Regulations, 2018 vide No. SEBI/LAD-NRO/GN/2018/51.
- (48) on 1st January, 2019 by the Securities and Exchange Board of India (Custodian of Securities) (Amendment) Regulations, 2018 vide No. SEBI/LAD-NRO/GN/2019/01.
- (49) on 26th April, 2019 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2019 vide No. SEBI/LAD-NRO/GN/2019/011.
- (50) On 23rd September, 2019 by the Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2019 vide No. SEBI/LAD-NRO/GN/2019/37.
- (51) On 06 March, 2020 by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2020 vide No. SEBI/LAD-NRO/GN/2020/07.
- (52) On 17 April, 2020 by the Securities and Exchange Board of India (Regulatory Sandbox) (Amendment) Regulations, 2020 vide No. SEBI/LAD-NRO/GN/2020/10.