

**DEPUTY GENERAL MANAGER
INVESTMENT MANAGEMENT DEPARTMENT**

SEBI/IMD/CIR No. 4/ 168230/09

June 30, 2009

**All Mutual Funds, Asset Management Companies
and Association of Mutual Funds in India (AMFI)**

Madam/ Sir,

**Sub: Mutual Funds- Empowering investors through transparency in payment of
commission and load structure**

1. SEBI has been taking various steps to empower the investors in mutual funds by way of more transparency in the loads borne by the investor so that the investor can take informed investment decisions. Towards this end, SEBI had earlier abolished initial issue expenses and mutual fund schemes were allowed to recover expenses connected with sales and distribution through entry load only. Further, investors making direct applications to the mutual funds were exempted from entry load.
2. In terms of existing arrangement, though the investor pays for the services rendered by the mutual fund distributors, distributors are remunerated by Asset Management Companies (AMCs) from loads deducted from the invested amounts or the redemption proceeds. SEBI (Mutual Funds) Regulations, 1996 also permit AMCs to charge the scheme (under the annual recurring expense) for marketing and selling expenses including distributor's commission.
3. Further, all loads including Contingent Deferred Sales Charge (CDSC) for the scheme are maintained in a separate account and this amount is used by the AMCs to pay commissions to the distributors and to take care of other marketing and selling expenses. It has been left to the AMCs to credit any surplus in this account to the scheme, whenever felt appropriate. In order to incentivise long term investors it is considered necessary that exit loads/CDSCs which are beyond reasonable levels are credited to the scheme immediately.

4. In order to empower the investors in deciding the commission paid to distributors in accordance with the level of service received, to bring about more transparency in payment of commissions and to incentivise long term investment, it has been decided that:
 - a) There shall be no entry load for all mutual fund schemes.
 - b) The scheme application forms shall carry a suitable disclosure to the effect that the upfront commission to distributors will be paid by the investor directly to the distributor, based on his assessment of various factors including the service rendered by the distributor.
 - c) Of the exit load or CDSC charged to the investor, a maximum of 1% of the redemption proceeds shall be maintained in a separate account which can be used by the AMC to pay commissions to the distributor and to take care of other marketing and selling expenses. Any balance shall be credited to the scheme immediately.
 - d) The distributors should disclose all the commissions (in the form of trail commission or any other mode) payable to them for the different competing schemes of various mutual funds from amongst which the scheme is being recommended to the investor.

Applicability

5. This circular shall be applicable for
 - a. Investments in mutual fund schemes (including additional purchases and switch-in to a scheme from other schemes) with effect from August 1, 2009 ;
 - b. Redemptions from mutual fund schemes (including switch-out from other schemes) with effect from August 1, 2009 ;
 - c. New mutual fund schemes launched on and after August 1, 2009; and
 - d. Systematic Investment Plans (SIP) registered on or after August 1, 2009.
6. AMCs shall follow the provisions pertaining in clause 5(2)(b) of SEBI Circular SEBI/IMD/CIR No. 5/126096/08 dated May 23, 2008 regarding updation of

Scheme Information Document (SID) and Key Information Memorandum (KIM) in this respect.

7. The AMCs shall bring the contents of this circular to the notice of their distributors immediately and monitor compliance.

8. 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,

Ruchi Chojer