

Consultation paper on draft circular for “Disclosure of expenses, half yearly returns, yield and risk-o-meter of schemes of Mutual Funds”

1. Under the current regulatory framework for Mutual Funds, various disclosure requirements have been mandated, which include disclosures by Mutual Funds with respect to scheme expenses and risks pertaining to a particular scheme. In order to facilitate enhanced transparency, ease of comprehension and a standardised approach towards disclosures by the Mutual Fund industry, certain changes have been proposed in this consultation paper which will further aid in informed decision making by investors.

A. Disclosure of expenses, expense ratio, returns and yields of regular plan and direct plan

2. Regulation 59 of SEBI (Mutual Funds) Regulations, 1996 requires half-yearly disclosure of unaudited financial results, which *inter alia* includes disclosure of total recurring expenses, returns during the half year and compounded annualised yield. Currently, expenses, expense ratio, returns and yields of all regular plans are disclosed by Asset Management Companies (AMCs). Considering that the expenses, expense ratio, returns and yields for direct plans and regular plans are different, it is proposed that such disclosures pertaining to both direct plan as well as regular plan may be disclosed in a standard format.

B. Disclosure of Risk-o-meter

3. Clause 17.4.1(c) of the Master Circular No. SEBI/HO/IMD/IMD-PoD-1/P/CIR/2024/90 dated June 27, 2024 for Mutual Funds (“Master Circular”), requires the risk of the scheme to be depicted through a pictorial meter named "Riskometer". To further enhance the pictorial representation of risk, it is proposed that the risk-o-meter should be colour coded. It is also proposed to standardise the format for disclosure of change in risk-o-meters of a Mutual Fund scheme as well as its benchmark.

4. Public Comments:

4.1. Public comments are invited on the draft Circular on “**Disclosure of expenses, half yearly returns, yield and risk-o-meter of schemes of Mutual Funds**”, placed at Annexure A. The comments / suggestions should be submitted latest by October 18, 2024, through the following link:

<https://www.sebi.gov.in/sebiweb/publiccommentv2/PublicCommentAction.do?doPublicComments=yes>

4.2. The instructions to submit comments on the consultation paper are as under:

- i. *Before initiating the process, please read the instructions given on top left of the web form as “Instructions”.*
- ii. *Select the consultation paper you want to comment upon from the dropdown under the tab – “Consultation Paper” after entering the requisite information in the form.*
- iii. *All fields in the form are mandatory.*
- iv. *Email ID and phone number cannot be used more than once for providing comments on a particular consultation paper.*
- v. *If you represent any organization other than the types mentioned under dropdown in “Organization Type”, please select “Others” and mention the type, which suits you best. Similarly, if you do not represent any organization, you may select “Others” and mention “Not Applicable” in the text box.*
- vi. *There will be a dropdown of Proposals in the form. Please select the proposals one- by-one and for each of the proposal, please record your level of agreement with the selected proposal. Please note that submission of agreement level is mandatory.*
- vii. *If you want to provide your comments for the selected proposal, please select “Yes” from the dropdown under “Do you want to comment on the proposal” and use the text boxes provided for the same.*
- viii. *After recording your response to the proposal, click on “Submit” button. System will save your response to the selected proposal and prompt you to record your response for the next proposal. Please follow this procedure for all the proposals given in the dropdown.*

- ix. *If you do not want to react on any proposal, please select that proposal from the dropdown and click on “**Skip this proposal**” and move to the next proposal.*
- x. *After recording your response to all the proposals, you may see your draft response to all of proposals by clicking on “**Check your response before submitting**” just before submitting response to the last proposal in the dropdown. A pdf copy of the response can also be downloaded from the link given in right bottom of the web page.*
- xi. *The final comments shall be submitted only after recording your response on all of the proposals in the consultation paper.*

4.3. In case of any technical issue in submitting your comment(s) through web based public comments form, you may contact on peterm@sebi.gov.in and laxmir@sebi.gov.in with the subject " **Disclosure of expenses, half yearly returns, yield and risk-o-meter of schemes of Mutual Funds**".

Encl.: Annexure A

Issued on: September 27, 2024

Draft Circular

SEBI/HO/IMD/PoD1/CIR/P/2024/

October XX, 2024

To,

All Mutual Funds (MFs)

Asset Management Companies (AMCs)

All Trustee Companies/ Board of Trustees of Mutual Funds

All Registrar to an Issue and Share Transfer Agents ('RTAs')

Association of Mutual Funds in India (AMFI)

Sir / Madam,

Subject: Disclosure of expenses, half yearly returns, yield and risk-o-meter of schemes of Mutual Funds

1. Under the current regulatory framework for Mutual Funds, various disclosure requirements have been mandated, which include disclosures by Mutual Funds with respect to expenses and risks pertaining to schemes. In order to facilitate enhanced transparency, ease of comprehension by investors and a standardised approach towards disclosures by the Mutual Fund industry, following has been decided:

A. Disclosure of expenses, half yearly returns and yield of a scheme

2. Investments under direct plan of a mutual fund scheme, which was introduced vide circular dated September 13, 2012 and came into effect from January 01, 2013, are investments which are not routed through distributors of Mutual Funds. Considering that distribution expenses and commission cannot be charged to investors of a direct plan, the expense ratio of direct plan of any scheme is lower than that of the regular plan of the same scheme. Consequently, owing to difference in expenses for the direct and regular plans, the returns of the direct and regular plans also differ.

3. In order to promote transparency in disclosure of expenses, returns during the half year and yield of direct and regular plans, based on the recommendation of the Mutual Fund Advisory Committee (MFAC), the following has been decided:

3.1. Regulation 59 of SEBI (Mutual Funds) Regulations, 1996 requires half-yearly disclosure of unaudited financial results of schemes, which, *inter alia* includes disclosure of total recurring expenses, returns during the half year and compounded annualised yield. In this regard,

3.1.1. The expenses disclosed in terms of point 6.4 of Twelfth Schedule on the format for disclosure of half-yearly financial results of a scheme shall contain separate disclosures for total recurring expenses for direct and regular plans, apart from the disclosure of total recurring expenses of the scheme.

3.1.2. Returns during the half year and compounded annualized yields shall be separately disclosed for direct and regular plans.

3.2. To standardise the above disclosures, the format for half-yearly financial statement for MF schemes shall be reviewed and finalised by AMFI, in consultation with SEBI.

3.3. For all other regulatory disclosures where expenses, expense ratio, returns and/or yield of the schemes are required to be disclosed, separate disclosures shall be made for both regular and direct plans.

B. Colour Scheme for Risk-o-meter

4. Clause 17.4.1(c) of the Master Circular No. SEBI/HO/IMD/IMD-PoD-1/P/CIR/2024/90 dated June 27, 2024 for Mutual Funds (“Master Circular”), specifies the provisions pertaining to product labelling in Mutual Funds. Based on the recommendation of MFAC, it has been decided that in addition to the existing labels relating to levels of risk i.e. Low, Low to Moderate, Moderate, Moderately

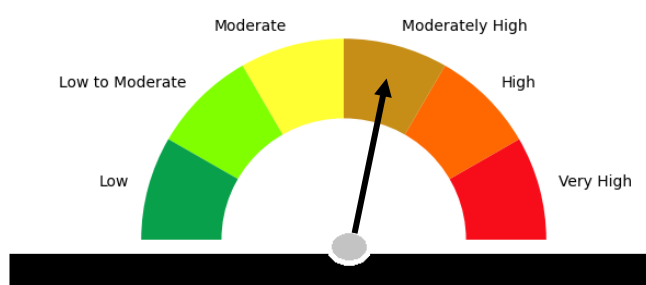
High, High and Very High, the Risk-o-meter shall also be depicted using a colour scheme. Accordingly, para 17.4.1(d) of the Master Circular stands modified as under:

“Risk-o-meter shall have following six levels of risk for mutual funds with the given colour scheme –

- i. Low Risk – Irish Green [#08A04B]¹
- ii. Low to Moderate Risk –Chartreuse [#7FFF00]
- iii. Moderate Risk – Neon Yellow [#FFFF33]
- iv. Moderately High Risk – Caramel [#C68E17]
- v. High Risk – Dark Orange [#FF8C00]
- vi. Very High Risk –Red [#F70D1A]

5. Further, para 17.4.1(e) of the Master Circular stands modified as under:

“Riskometer: Risk level of the scheme shall be depicted by “Risk-o-meter” and the colour scheme shall also be displayed through legends below the Risk-o-meter, as given below –



Low Risk – Irish Green
Low to Moderate Risk – Chartreuse
Moderate Risk – Neon Yellow

Moderately High Risk – Caramel
High Risk – Dark Orange
Very High Risk - Red

For example, the risk depicted in the above risk-o-meter is Moderately High”

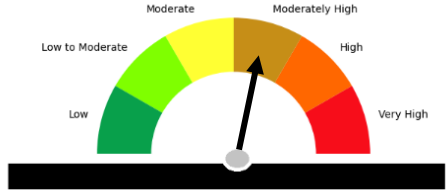
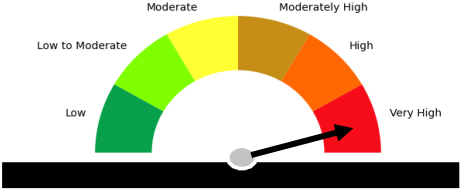
C. Disclosure of change in Risk-o-meter

¹ HTML Color Code

6. As per para 17.4.1 (h) of the Master circular, any change in the risk-o-meter shall be communicated to unitholders of that particular scheme by way of a Notice cum Addendum as well as an e-mail or SMS.

7. In order to standardise the format of disclosure and for ease of understanding of the change in level of risk for unitholders, the Mutual Funds shall disclose the existing risk-o-meter along with the revised risk-o-meter. Accordingly, para 17.4.1 (h) of the Master Circular stands modified as under:

“Any change in risk-o-meter of the scheme or its benchmark shall be communicated by way of Notice cum Addendum and by way of an e-mail or SMS to unitholders of that particular scheme. The format for disclosure of change in Risk-o-meter shall be as under:

Name of the Scheme(s)	Existing Risk-o-meter of Scheme/Benchmark	Revised Risk-o-meter of Scheme/Benchmark
XXXX Large and Midcap Fund		
	<i>Low Risk – Irish Green</i> <i>Low to Moderate Risk – Chartreuse</i> <i>Moderate Risk – Neon Yellow</i>	<i>Moderately High Risk – Caramel</i> <i>High Risk – Dark Orange</i> <i>Very High Risk - Red</i>

8. The provisions of this circular shall come into effect from XX-XX-XXXX (30 days from the date of issuance of the circular).

9. 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 29(1), 58(1), 59(1) read with 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.