CIRCULAR

SEBI/HO/IMD/DF3/CIR/P/2019/147 **November 29, 2019**

All Mutual Funds (MFs)/
Asset Management Companies (AMCs)/
Trustee Companies/ Board of Trustees of Mutual Funds/
Association of Mutual Funds in India (AMFI)

Sir / Madam,

Subject: Norms for Debt Exchange Traded Funds (ETFs)/Index Funds

1. The following norms are prescribed for Debt ETFs/Index Funds to be adopted by all AMCs:

(a) The constituents of the index shall be aggregated at issuer level.

(b) The index shall have a minimum of 8 issuers.

(c) No single issuer shall have more than 15% weight in the index.

(d) The rating of the constituents of the index shall be investment grade.

(e) The constituents of the index shall have a defined credit rating and defined maturity as specified in the index methodology.

2. Replication of the Index by Debt ETFs/Index Funds shall be as follows:

(a) Debt ETFs/Index Funds shall replicate the index completely.

(b) In the event, if the condition laid down in para 2(a) above is not feasible due to non-availability of issuances of the issuer forming part of the index, the Debt ETFs/Index Funds shall be allowed to invest in other issuances issued by the same issuer having deviation of +/- 10% from the weighted average duration of issuances forming part of the index, subject to single issuer limit. Further, at aggregate portfolio level, the duration of Debt ETF/Index Fund shall not deviate +/- 5% from the duration of the index.

(c) In the event, if the conditions laid down in para 2(a) and para 2(b) above are not feasible, the Debt ETFs/Index Funds shall be allowed to invest in issuances of other issuer(s) within the index having duration, yield and credit rating in line with that of the non-available issuances of the issuer(s) forming part of the index, subject to single issuer limits. The duration of Debt ETF/Index Fund shall not deviate +/- 5% from the duration of the index.

(d) In the event, if the conditions laid down in para 2(a), para 2(b) and para 2(c) above are not feasible, the Debt ETFs/Index Funds shall be allowed to invest in issuances of issuer(s) not forming part of the index with duration, yield and credit rating in line with that of the non-available issuances of issuer(s) forming part of the index. Such investment in issuances of issuer(s) not forming part of the index shall be maximum of 20% of the aggregate portfolio of the Debt ETF/Index Fund.

(e) The rationale for any deviation from para 2(a) above shall be recorded.

3. In an event where the credit rating of an issuance falls below the investment grade or rating mandated in the index methodology, rebalancing by Debt ETFs/Index Funds shall be done within a period of 5 working days.

4. Accordingly, any Debt ETF/Index Fund that seeks to replicate a particular Index shall ensure that such index complies with the aforesaid norms.

5. Compliance Procedure:

a) The aforesaid norms shall be applicable to all Debt ETFs/ Index Funds tracking debt indices.

b) The Debt ETF/Index Fund issuer shall ensure compliance to the aforesaid norms for rebalancing at the end of every calendar quarter.

c) The Debt ETF/Index Fund issuer shall ensure that the updated constituents of the Indices and methodology (for all its Debt ETFs/ Index Funds) are available on their respective websites at all points of time.

6. Applicability:

a) All existing Debt ETFs/Index Funds in the market: The issuers of all the existing Debt ETFs/ Index Funds are required to ensure adherence to the new norms by all the Debt ETFs/ Index Funds within a period of three months from the date of issuance of this circular.

b) All the Debt ETFs/Index Funds where SEBI has issued final observations on the Scheme Information Document, but have not yet been launched: The issuers shall submit the compliance status vis-à-vis these norms to SEBI before launching such Debt ETFs/Index Funds.

c) The above norms shall not be applicable to Debt ETFs/Index Funds tracking debt indices having constituents as Government Securities (G-Secs), Treasury Bills and Tri-party Repo (TREPS) only.

7. This circular is issued in exercise of the powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, read with the provision 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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