



**CIRCULAR**

**SEBI/HO/IMD/DF3/CIR/P/2020/194**

**October 05, 2020**

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

Sir / Madam,

**Subject: Review of Dividend option(s) / Plan(s) in case of Mutual Fund Schemes**

1. Please refer to Ninth and Eleventh Schedule of SEBI (Mutual Funds) Regulations, 1996 and SEBI circular No. SEBI/IMD/CIR No 18 / 198647 /2010 dated March 15, 2010, which provide the accounting policies to be followed for determining distributable surplus and accounting the sale and repurchase of units in the books of the Mutual Fund.
2. The aforesaid regulatory requirements, inter-alia, mandates that when units are sold, and sale price (NAV) is higher than face value of the unit, a portion of sale price that represents realized gains shall be credited to an Equalization Reserve Account and which can be used to pay dividend.
3. There is a need to clearly communicate to the investor that, under dividend option of a Mutual Fund Scheme, certain portion of his capital (Equalization Reserve) can be distributed as dividend.



4. Based on the recommendations of Mutual Funds Advisory Committee (MFAC), it is decided to stipulate the following:

4.1. All the existing and proposed Schemes of Mutual Funds shall name / rename the Dividend option(s) in the following manner:

Option / Plan	Name
Dividend Payout	Payout of Income Distribution cum capital withdrawal option
Dividend Re-investment	Reinvestment of Income Distribution cum capital withdrawal option
Dividend Transfer Plan	Transfer of Income Distribution cum capital withdrawal plan

4.2. Offer documents shall clearly disclose that the amounts can be distributed out of investors capital (Equalization Reserve), which is part of sale price that represents realized gains. Further, AMC's shall ensure that the said disclosure is made to investors at the time of subscription of such options/plans.

4.3. AMC's shall ensure that whenever distributable surplus is distributed, a clear segregation between income distribution (appreciation on NAV) and capital distribution (Equalization Reserve) shall be suitably disclosed in the Consolidated Account Statement provided to investors as required under Regulation 36(4) of SEBI (Mutual Funds) Regulations, 1996 and SEBI Circular No. CIR/MRD/ DP/ 31/2014 dated November 12, 2014.

5. The aforesaid changes shall not be treated as Fundamental Attribute Change in terms of Regulation 18 (15A) of SEBI (Mutual Funds) Regulations, 1996.

6. All other conditions specified in this regard shall remain unchanged.



**भारतीय प्रतिभूति और विनिमय बोर्ड**  
**Securities and Exchange Board of India**

7. The provisions mentioned under paragraph 4 shall be effective from April 01, 2021.
8. 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 Regulation 77 of the Securities and Exchange Board of India (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,

**Deena Venu Sarangadharan**

**Deputy General Manager**

Tel no.: 022-26449266

Email: [deenar@sebi.gov.in](mailto:deenar@sebi.gov.in)