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### » Revised Code of Conduct for Mutual Funds Intermediaries

The Association of Mutual Funds in India has come up with a revised Code of Conduct for Mutual Funds (MFs) intermediaries. Securities and Exchange Board of India (SEBI) vide circular no. SEBI/IMD/CIR No. 8/174648/2009 has prohibited all mutual funds to deal with distributors who violate the Code of Conduct. SEBI has also directed distributors to disclose to clients all information, involving commissions received for competing schemes of various Mutual Funds of which the scheme was recommended. This would result in investors getting the best deal from distributors. This move by SEBI is an extension of the recent changes introduced by it with respect to fee structure of distributors. As per the recent changes, investors now need to pay directly to the distributors based on their quality of services, unlike previously, when MFs compensated the distributors. In June, SEBI had asked fund houses not to deduct marketing and distribution expenses from investments made by investors to check on rebate commissions flowing back to investors and to avoid attracting clients through commission driven malpractices. The Code of Conduct stipulates that a focus on financial planning and advisory services ensures correct selling and also reduces the trend towards investors asking for passback of commission.

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### » SEBI Board Meeting

The SEBI Board, in its meeting on 22<sup>nd</sup> September, 2009 has taken wide ranging decisions such as amendments to Takeover Code, introducing the concept of Anchor Investor to IDRs among others. The changes proposed are as below:

a) **Amendments to Listing Agreement/ICDR Regulations regarding compliance with applicable Accounting Standards**

A listed company undergoing corporate restructuring (merger, demerger or amalgamation) under a

scheme of arrangement shall submit an auditors' certificate to the stock exchange to the effect that the accounting treatment followed in respect of financials contained in the scheme is in compliance with all the applicable accounting standards. This requirement will be prescribed through amendments to listing agreement.

An unlisted company undergoing similar corporate restructuring and proposing to make an IPO shall make disclosures in the DRHP in terms of AS 14. This will be mandated through the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009.

**b) Facilities for issue of Indian Depository Receipts**

The Board has decided to extend the facility of anchor investors to issue of IDRs on similar terms as applicable to public issues made by domestic companies. Moreover, at least 30% of issue size of the IDRs is to be reserved for allocation to retail individual investors.

**c) Amendments to SEBI (Substantial Acquisition of Shares and Takeovers) Regulations (Takeover Regulations)**

**i. Applicability of open offer obligations in case of GDRs/ ADRs etc.**

In tune with market developments, the Board has decided to amend the Takeover Regulations to provide that where the ADR/ GDR holders are entitled to exercise voting rights on the shares underlying GDRs / ADRs by virtue of clauses in the depository agreement or otherwise, open offer obligations shall be triggered upon crossing the threshold limits set out under Chapter III of the Regulations.

**ii. Disclosure of sale/ purchase by acquirer under Regulation 7 (1A)**

Regulation 7 (1A) of the Takeover Regulations requires disclosures on (+ /-) 2% acquisition / divestment by the acquirers holding shares / voting rights between 15-55%. The Board has decided to extend such disclosure requirements to acquirers holding shares / voting rights between 15-75%.

**iii. Amendment for bringing clarity to Regulation 11(1) of Takeover Regulations**

Regulation 11(1) would be amended to clarify that under Regulation 11 (1), the creeping acquisition of 5% would be available subject to the condition that post-acquisition, the shareholding / voting rights of the acquirer together with persons acting in concert with him, shall not increase beyond 55%. However, such acquisition up to 55% under Regulation 11(1) shall not be a bar on further acquisition up to 5% as envisaged under the second proviso to Regulation 11 (2).

In case of clarifications kindly contact our Capital Market Team.

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