AMFI

# Association of Mutual Funds in India

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135/BP/ 109 /2023-24 November 01, 2023

**To,**
**<u>All AMFI Members</u>**

Dear Members,

**AMFI Best Practices Guidelines Circular No. 109 / 2023-24**

**<u>Sub: Usage of illustrations for depicting future returns (based on assumptions / presumptions) in the non - scheme related materials and incidental matters</u>**

Please refer to SEBI letter No. IMD/SEC4/OW/P/2023/9448/1 dated March 03, 2023, regarding Compliance with Advertisement Code prescribed in Sixth Schedule to SEBI (Mutual Funds) Regulations, 1996, which was circulated by AMFI to all AMCs vide email no. 35P/ MEM-COR/ 86/ 2022-23 dated March 2023

As stated in the aforesaid letter, SEBI had observed that some of the Asset Management Companies (AMCs) were indulging in practices relating to advertisements, which were not in compliance with letter and spirit of the provisions with the Advertisement Code prescribed in SEBI (Mutual Funds) Regulations, 1996. Some of instances observed by SEBI were as follows –

(a) Illustrations provided in the advertisements/presentations/brochures/pamphlets were such that they could lead the investors to believe that they will be receiving fixed returns for their investments including that of SIPs by demonstrating SWP as a multiple of SIP;

(b) Illustrations shown depicting future returns on the basis of assumptions and projections;

(c) Disclaimers and assumptions made were in fine print that are likely to be missed by the investors.

SEBI had therefore advised AMFI to convey to all the AMCs to refrain from such disclosures/ advertisements which are ambiguous and likely to be misunderstood by the investors.

In the above backdrop, AMFI Operations & Compliance Committee (OpCo) felt that it was expedient for AMFI to issue a best practice guideline (BPG) circular with regard to disclosure of numerical illustrations for depicting future returns in non-scheme related promotional materials which are intended to provide conceptual clarity to investors or for educational purposes.

Accordingly, the below-mentioned guidelines have been framed in consultation with AMFI OpCo and SEBI.

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1. For the purpose of implementation of these Guidelines, "non-scheme related material" shall mean any reference material which does not contain any scheme related information.

2. Numerical illustrations may be used in the case of SIP / SWP / STP calculators to explain the power of compounding.

3. The aforesaid numerical illustrations can be provided only for the categories/situations specified in the table below by using the compounded annualized growth rate % (CAGR) prescribed against each category/situation.

4. AMFI may modify the list of categories and the prescribed CAGR from time to time based on market conditions.

| Category of Scheme (A) | Benchmark | CAGR for illustration (B) | Basis of computing the rate (C) |
|---|---|---|---|
| **Equity funds** | Sensex/Nifty | Sensex – 12.64%<br>Nifty – 12.93% | Mean of 10 years rolling return between 01/06/13 and 30/05/23 of ________ (Benchmark) |
| **Fixed income funds** | 10 year GSec | 7.20% | |
| **Hybrid Funds** | | | |
| Predominantly investing in equities (Assuming 75% Equity and 25% Debt) | Sensex/Nifty +10 Year G-Sec | Sensex – 11.28%<br>Nifty – 11.50% | |
| Predominantly investing in debt securities / instruments (Assuming 25% Equity and 75% Debt) | 10 Year GSec + Nifty/Sensex | Nifty – 8.63%<br>Sensex – 8.56% | |
| Investing equally in Equity and Debt (assuming 50 % Equity and 50 % Debt) | Sensex/Nifty – 50%<br>10 Year GSec – 50% | Sensex: GSec –9.92%<br>Nifty: GSec – 10.07% | |
| **Multi Asset Funds (Assuming 40% Equity, 40% Debt and 20% Gold)** | Sensex/Nifty – 40%<br>10 Year GSec – 40%<br>Gold – 40% | Sensex: GSec: Gold – 9.80%<br>Nifty: Gsec: Gold – 9.92% | |

***Note:***
*Returns calculated by taking mean of 10-year rolling returns between 01/06/13 and 30/05/23 for various benchmarks.*
*Mean returns are as follows: INR Gold 9.34%; Sensex: 12.64%; Nifty 50: 12.93% and 10-year G-Sec: 7.20%.*

5. Illustration shall clearly disclose the CAGR used and the basis of the same as stated in columns B and C, respectively, in the above table.

6. None of the illustrations shall indicate returns higher than the returns prescribed by AMFI in the table above.

7. The illustration shall contain the Standard Warning and the disclaimer stating, "*past performance may or may not be sustained in future and is not a guarantee of any future returns*".

8. For avoidance of doubt, it is clarified that no future returns can be shown even on illustration basis.

9. Further, it is clarified that AMCs may use tools such as goal planning, SIP/ STP/ SWP calculators which permit investors to select the return from a range of returns starting from 2 % to 13% for understanding the compounding effect, so long as such tools are not used to depict returns of any particular MF Scheme.

   *Note: It is clarified that higher range of return intended to be provided in the tools such as goal planning, SIP/ STP/ SWP calculators shall not be more than 13%, as the data provided in the table above indicates that the highest Mean in respect of 10 years rolling returns between 01/06/13 and 30/05/23 of the Benchmarks provided in the table is of Nifty, which is 12.93%.*

10. The font size used in depicting disclaimers in advertisements should be commensurate with the other sections of the advertisement material.

11. The returns mentioned in the table above for the purpose of numerical illustrations in non-scheme related materials shall be reviewed annually, based on the movements of the benchmarks.

Members are requested to take note of the above guidelines for uniform implementation. These guidelines provide the minimum standards to be implemented by all AMCs. AMCs may implement more stringent & conservative controls, based on their internal policies.

Members are requested to place this Best Practice Guidelines Circular before their Board of Trustees and the Board of AMC for information.

With best regards,

**B. M. Kini**
**Dy. Chief Executive**