

SEBI proposes to revamp its regulatory regime for mutual funds

SEBI has issued a consultation paper dated October 28, 2025 (**Consultation Paper**) that proposes a comprehensive rewrite of the SEBI (Mutual Funds) Regulations, 1996 (**MF Regulations**) to simplify language, remove redundancies, clarify ambiguities, and align the framework with three decades of market evolution, technological change, and accumulated circulars/guidance that have made the rulebook voluminous and complex.

While a comprehensive review of the MF Regulations has been initiated, proposals made on two specific past consultations, one on permissible business activities for an asset management company (**AMC**) and the other on Total Expense Ratio, which had been initiated earlier, have been included in the current set of proposals.

The exercise also consolidates dispersed requirements into master circulars where appropriate, streamlines definitions, and modernizes communication and disclosure norms. Public comments are sought to refine the draft, including on the three-tier MF structure, sponsor eligibility, governance, AMC business lines, and potential umbrella licensing for AMCs.

A. The main focus of SEBI's proposals is to provide for the rationalisation of Total Expense Ratios (**TERs**), capping of brokerage costs, and introducing greater transparency in the fee structure of mutual funds.

- Currently, Regulation 52(6A)(c) enables mutual fund schemes to charge additional 5 bps on the whole AUM of the scheme for schemes where exit load is applicable/levied. The Consultation Paper proposes to remove this provision from the draft MF Regulations.
- Presently GST on management fees is permitted over and above the TER limit. However, all other statutory charges are part of the overall TER limit specified for mutual fund schemes. The Consultation Paper proposes to exclude all statutory levy i.e. STT, GST, CTT, Stamp duty from the expense ratio limits along with the present permissible expenses for brokerage, exchange and regulatory fees. The expense ratio limits are proposed to be exclusive of statutory levy, so that any change in statutory levy in future are passed on to the investors.
- The present MF regulations permit AMCs to charge brokerage and transaction costs incurred for the purpose of execution of trade up to 0.12 per cent of trade value in case of cash market transactions and 0.05 per cent of trade value in case of derivatives transactions. The Consultation Paper proposes to revise the brokerage charge from 12 bps to 2 bps for cash market transactions and 5 bps to 1 bps for derivative transactions to bring clarity and transparency. The limits of 2 bps and 1 bps mentioned above shall be the limit for brokerage alone. All other costs relating to execution of transaction may be charged on actual basis. Further, all statutory levies are proposed to be outside the expense ratio limits. i.e. STT/CTT/GST/stamp duty incurred for execution of trades can be over and above the limit of 2/1 bps.
- A new provision enabling expense ratio to be charged based on the performance of a scheme is to be introduced and may be adopted at the option of AMCs. A detailed framework in this regard is to be finalised separately in consultation with stakeholders.

B. Changes to Regulation 24(b) of the MF Regulations

Currently, Regulation 24(b) restricts an AMC from engaging in other business activities that could create conflicts with the fair and non-discriminatory treatment owed to pooled mutual fund investors. The Consultation Paper proposes an alternative pathway allowing AMCs (or subsidiaries) to provide investment management/advisory services to non-pooled, non-broad-based funds subject to compliance with the following additional requirements:

- The unit providing such service shall operate as a distinct business unit separated through Chinese walls with all the key employees segregated.

- AMC shall ensure that there exist mechanisms to prevent misuse of information obtained from mutual funds operations to benefit the clients under the other services provided by the AMC.
 - The unit shall report directly to the CEO of the AMC. In case of portfolio management services, as the overall operations are overseen by the Principal Officer of a Portfolio Manager, the Principal Officer shall directly report to the CEO of the AMC.
 - The asset management company may undertake such activity regulated by a domestic or foreign regulator, only through its subsidiary, subject to SEBI's prior approval.
- C. A number of changes proposed by SEBI are meant to make compliance easier. For example, currently, trustees are required to hold at least one meeting every two calendar months and at least six such meetings in a year. The requirement has been revised to mandate one meeting every three calendar months and a minimum of four meetings in a year. Along with the above change, in order to enable trustees to conduct more meetings, the trust deed is required to empower trustees to meet at such frequency as required to ascertain orderly management of mutual fund schemes by asset management companies and compliance with the MF Regulations.

ELP Comments

- Currently all expenses charged to the investors in mutual funds are bundled inside a single number called the "Total Expense Ratio" which results in Investors not easily knowing how much goes to the fund manager and how much to taxes. SEBI proposals will result in the unbundling of costs causing execution and research payments to be separated. This likely to reduce double charges for investors. Investors will have a better idea as to the different expenses heads that they pay for.
- However, on the flip side, the lower brokerage caps may weigh on revenue streams for stockbrokers who may face a significant impact on their revenue models as brokerage income from mutual funds shrinks. Distributors and transfer agents will need to adapt to revised cost structures and transparency norms.
- AMCs may find it easier to carry on other business activities, such as offering investment management and advisory services to non-pooled and non-broad based funds, provided they are able to strengthen internal walls and avoid any conflict of interest.
- The proposed new rule that will enable expense ratio to be charged based on the performance of a scheme is fascinating to say the least. If implemented, investors will pay more towards expenses if the mutual fund performs well, and less if it doesn't.

The Consultation Paper can be found [here](#)

The Consultation Paper dated May 18, 2023, proposing changes to the TER charged by AMCs to unitholders of schemes of Mutual Funds can be found [here](#)

The Consultation Paper dated July 7, 2025, proposing a review of the regulatory framework on Permissible Business Activities for Asset Management Companies (AMCs) under Regulation 24 of the MF Regulations can be found [here](#)

We hope you have found this information useful. For any queries/clarifications, please write to us at insights@elp-in.com or write to our authors:

Vinod Joseph, Partner – Email - vinodjoseph@elp-in.com

Paridhi Jain, Associate – Email – paridhijain@elp-in.com

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