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SEBI Revamps and Replaces Its 30-Year-Old Regulations for Mutual Funds

INTRODUCTION

In January 2026, SEBI notified the SEBI (Mutual Funds) Regulations, 2026 ("2026 Regulations"), representing a comprehensive recast of the mutual fund regulatory framework and effectively replacing the previous set of regulations which have been in place since 1996 ("1996 Regulations"). The 2026 Regulations are the culmination of SEBI's consultation process, including a detailed October 2025 consultation paper on the comprehensive review of the 1996 Regulations, and aim to streamline, modernise and risk-align the regime for a much larger and more complex mutual fund industry.

This note provides a structured, comparison between the 1996 Regulations and the 2026 Regulations, focusing on aspects in which the 2026 Regulations significantly differ from the 1996 Regulations. For each topic, the note explains the position under the 1996 Regulations, the corresponding provisions under the 2026 Regulations, key changes and continuities, tightening or relaxation of norms, and the apparent policy rationales, drawing on SEBI's regulations, circulars and consultation material.

On a number of topics, such as the process of registration, restrictions on related party investments, advertisement code, annual reporting, lending of securities, conflicts of interest disclosures, etc. the 2026 Regulations do not substantially differ from the 1996 Regulations, and such topics are not covered in this write-up.

REGISTRATION REQUIREMENTS

- **Overall Eligibility Framework and Structure**

1996 Regulations. Under Regulation 7 of the 1996 Regulations, the primary eligibility criteria for granting a certificate of registration to a mutual fund turned on the "sound track record" and general reputation of fairness and integrity of the sponsor in all business transactions. The explanation to Regulation 7(a) defined "sound track record" via a four-part financial-services and profitability test over a five-year period and imposed a positive net worth requirement. Regulation 21 of the 1996 Regulations initially required the AMC to maintain a minimum net worth of ₹10 crore. This threshold was raised to Rs. 50 crore in 2014. In 2021, SEBI provided an optional pathway (via an amendment to Regulation 21(f) read with relevant circulars) under which, if the sponsor did not meet the "sound track record" criteria under Regulation 7(a) at the time of application, the AMC had to maintain a higher net worth of Rs. 100 crore, until it achieved profits for five consecutive years. Finally, in 2023, SEBI expressly introduced an alternate eligibility pathway in Regulation 7, under which a sponsor that did not meet the traditional track-record tests could still sponsor a mutual fund, provided it adequately capitalised the AMC so that the AMC's net worth was at least Rs. 150 crore on a continuous basis.

2026 Regulations. The 2026 Regulations have recast this approach by explicitly providing two alternative eligibility routes for sponsors in Regulation 5.

Under the first route, the sponsor continues to be assessed on parameters analogous to the 1996 "sound track record" criteria (experience in financial services, positive net worth over a specified period and profitability benchmarks). The sponsor must appoint specified key officers in the AMC (such as the Chief Executive Officer, Chief Operating Officer, Chief Risk Officer, Chief Compliance Officer and Chief Investment Officer) with a minimum of three years of relevant experience each. Further, the AMC must also maintain a minimum net worth of Rs. 50 crore on a continuous basis.

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Under the second route, the AMC must maintain a net worth of at least Rs. 150 crore on a continuous basis, of which Rs. 100 crore must be deployed in specified assets as may be notified by SEBI. The second route also mandates that each of the designated key officers possesses at least three years of relevant experience, in addition to an aggregate combined experience requirement of 30 years across the team. Importantly, the second route provides a transition mechanism: once the AMC records profits for five consecutive years, the net worth requirement may be relaxed to Rs. 50 crore, aligning with the first route ongoing requirement.

ELP Comments

The first route broadly mirrors the traditional "sound track record" route under Regulation 7(a) of the 1996 Regulations: it is intended for sponsors with an established financial services track record and positive financial history. The second route, by contrast, codifies and refines the alternate capitalisation-based pathway, allowing sponsors that may not meet the conventional track record benchmarks to enter the industry if they commit significantly higher and more stable capital to the AMC and put in place experienced management.

- **Surrender of Registration Certificate**

1996 Regulations. Under the 1996 Regulations, there was no comprehensive, express provision in the registration chapter for surrender of a mutual fund's registration certificate after winding up all schemes. While specific amendments allowed existing mutual funds to transition to launching only "mutual fund lite" or restricted schemes, the process of surrendering registration was managed through SEBI's general powers and bespoke directions rather than a codified mechanism.

2026 Regulations. The 2026 Regulations introduce an explicit surrender mechanism under Regulation 8. After all schemes of a mutual fund have been wound up and all liabilities discharged, the mutual fund may apply to SEBI for surrender of its certificate of registration. The Regulation prescribes conditions and procedural steps for surrender, giving clarity to exit pathways.

ELP Comments

Codifying an express surrender mechanism is part of SEBI's broader effort to cover the full lifecycle of a mutual fund—from entry and ongoing operations to orderly exit. This reduces regulatory ambiguity, supports industry consolidation or rationalisation where commercially warranted, and ensures that investor interests are protected during exit and wind-up processes.

INVESTMENT RESTRICTIONS

The 1996 Regulations contained detailed investment restrictions primarily in the Seventh Schedule, which evolved over time through amendments and circulars. The 2026 Regulations reorganise these into the Sixth Schedule and related provisions, and in some cases shift from hard-coded numerical caps to a framework of prudential limits to be prescribed by SEBI from time to time. This section discusses the key areas reflected in the comparison document.

- **Concentration in a Single Company**

1996 Regulations. Clause 10 of the Seventh Schedule restricted a scheme from investing more than 10% of its NAV in the equity shares or equity-related instruments of any one company, subject to specified exceptions for index schemes and sector/thematic products as introduced through later amendments. The objective was to avoid excessive issuer concentration and to ensure diversification at the scheme level.

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2026 Regulations. Under the 2026 Regulations, the concentration limit in a single company is no longer hard-coded as a fixed percentage in the primary regulation. Instead, Clause 9 of the Sixth Schedule provides that concentration limits shall be subject to prudential norms as may be specified by SEBI from time to time. This shift allows SEBI to recalibrate limits dynamically through circulars or directions in response to market developments, without requiring formal regulatory amendments.

ELP Comments

While the original 10% cap represented a clear diversification benchmark, it had to be revisited through multiple amendments as products and market practices evolved. Moving to a prudential-limit framework under the 2026 Regulations reflects SEBI's desire for flexibility and responsiveness, especially given the proliferation of passive products, factor-based index strategies and concentrated sectoral exposures. From a regulatory-rigour perspective, the change is neutral to slightly tightening in practice, as SEBI can tailor issuer concentration norms across categories and quickly tweak them based on risk assessments.

- **Investment in Listed Securities**

1996 Regulations. The 1996 Regulations did not contain a dedicated, consolidated clause expressly defining "investment in listed securities" for mutual fund schemes. Instead, schemes were generally permitted to invest in securities in line with their investment objectives and category norms, with specific restrictions (such as on unlisted debt) and valuation rules indirectly shaping listed versus unlisted exposures.

2026 Regulations. The 2026 Regulations explicitly identify the permissible universe of listed securities and money market instruments in Clause 1 of the Sixth Schedule. The provision clarifies that mutual fund schemes may invest in listed securities, money market instruments and certain government and debt instruments as specified, thereby consolidating and sharpening the scope of permissible listed instruments.

ELP Comments

The increased specificity in the 2026 Regulations is aimed at regulatory clarity rather than a dramatic shift in permissible investments. By compiling the range of eligible listed instruments and tying them to SEBI's broader product and risk categorisation framework, SEBI reduces interpretive uncertainty and enhances comparability across schemes.

- **Debt and Money Market Instruments, Including Unlisted Debt**

1996 Regulations. Under the 1996 regime, mutual fund schemes could invest up to 10% of their NAV in debt instruments (both money market and non-money market instruments) rated not below investment grade by a credit rating agency, with a possibility of extending this limit to 12% of NAV with prior SEBI approval. Significantly, over time SEBI largely prohibited mutual fund schemes from investing in unlisted debt instruments, including commercial papers, except for unlisted Government securities, because of concerns around transparency, valuation and credit risk.

2026 Regulations. The 2026 Regulations consolidate the treatment of debt and money market instruments in Clause 1 of the Sixth Schedule. Schemes are permitted to invest in debt instruments and in unlisted Government securities and money market instruments (other than commercial papers) as well as unlisted non-convertible debentures in the manner specified by SEBI. Instead of hard-coded percentages in the regulation text, SEBI prescribes detailed exposure norms and ceilings through circulars, allowing for differentiated treatment based on instrument type, credit quality and scheme category.

ELP Comments

Compared to the 1996 regime, which started with more permissive unlisted debt exposures but later tightened them heavily through circulars, the 2026 Regulations embed a more nuanced, risk-sensitive framing from the outset. By treating categories such as unlisted NCDs and unlisted Government securities differently and delegating quantitative caps to SEBI's subordinate rule-making, the framework can better respond to episodes of credit stress and liquidity events, while still preserving product innovation space.

- **Borrowing Powers**

1996 Regulations. Regulation 44(2) allowed mutual funds to borrow up to 20% of the NAV of a scheme for a maximum period of six months, solely to meet temporary liquidity needs for the purposes of repurchase or redemption of units, or payment of interest or dividend to unit holders. The borrowing power was intended as a short-term liquidity bridge, not a leverage tool for investment purposes.

2026 Regulations. Regulation 42 of the 2026 Regulations reiterates that mutual funds may borrow only to meet temporary liquidity needs, including repurchase or redemption of units, payment of interest or income distribution cum capital withdrawal payouts, and settlement of trades by equity-oriented index funds and ETFs in case of under-execution of sell trades. The quantum and tenor remain broadly aligned: borrowing shall not exceed 20% of the net assets of the scheme and shall not be for a period exceeding six months. However, Regulation 42(2) clarifies that the 20% limit does not apply to intraday borrowing, subject to conditions specified by SEBI, recognising the operational needs of ETFs and large funds in intraday settlement. Regulation 42(3) and 42(4) also reaffirm restrictions on advancing loans and on securities lending and borrowing in line with SEBI's short selling and SLB framework.

ELP Comments

The 2026 framework maintains the overall prudential stance on leverage but modernises it to reflect contemporary market microstructure, especially for ETFs and high frequency settlement environments. Allowing intraday borrowing outside the 20% cap, under SEBI specified safeguards, is a calibrated relaxation for operational efficiency without undermining the prohibition on structural leverage.

- **Investments in REITs and InvITs**

1996 Regulations. The original 1996 Regulations did not contemplate investments in real estate investment trusts (REITs) and infrastructure investment trusts (InvITs), as these products were introduced much later. Through the SEBI (Mutual Funds) (Amendment) Regulations, 2017, Clause 13 of the Seventh Schedule was inserted to allow mutual fund schemes to invest in listed units of REITs and InvITs, subject to three key caps: (i) the aggregate holding across all schemes of a mutual fund in a single REIT/InvIT not exceeding 10% of the units of that REIT/InvIT; (ii) scheme-level exposure to REIT/InvIT units capped at 10% of the scheme's NAV; and (iii) issuer-level exposure for a scheme capped at 5% of its NAV, with specific relaxations for index funds and sectoral/ thematic schemes dedicated to REITs/InvITs.

2026 Regulations. Under the 2026 Regulations, REITs are now expressly embedded within the definition of "equity related instruments" in Regulation 2(1)(o). Instead of retaining the asset-specific percentage caps in the main Regulations, the framework transitions to a prudential-limit approach, whereby SEBI will prescribe exposure norms to such instruments separately (for example, through circulars specific to REIT/InvIT

exposures). The treatment of InvITs is less explicitly articulated in the core definition, and further clarification is expected to come through SEBI circulars and guidance.

ELP Comments

The move from static numerical caps in the 1996 Regulations (as amended) to a principled, prudential-limit framework in the 2026 Regulations is consistent with SEBI's broader shift towards flexible, instrument-agnostic risk management. By recognising REIT units as equity-related instruments, SEBI signals that, for risk and asset allocation purposes, REITs are closer to equity than to traditional debt, while leaving room for category specific caps and guardrails that can be quickly updated in response to market conditions.

- **Investments in Commodity Derivatives**

1996 Regulations. Clause 14 of the Seventh Schedule (inserted by later amendments) permitted mutual fund schemes to invest in exchange-traded commodity derivatives, subject to investment restrictions specified by SEBI. Detailed eligibility conditions, permitted underlying commodities, and exposure limits were laid down in SEBI circulars, particularly in the context of commodity derivative-linked mutual fund schemes and commodity ETFs.

2026 Regulations. The 2026 Regulations do not contain a separate commodity-derivatives-specific clause in the Sixth Schedule. Instead, commodity derivative exposures are governed under the general derivatives framework in Clause 6 of the Sixth Schedule, which lays down the principles for derivative usage by mutual fund schemes. In addition, Regulation 41(2) provides specific enabling provisions for Gold and Silver ETFs, thereby providing a clear regulatory basis for precious-metal-backed products. Detailed quantitative limits and risk-management requirements for commodity derivatives are to be specified by SEBI through circulars.

ELP Comments

Subsuming commodity derivatives under the broader derivatives framework, coupled with explicit recognition of Gold/Silver ETFs, reflects SEBI's attempt to harmonise treatment across derivative instruments while ensuring that commodity exposures remain tightly risk-managed. The shift is largely structural rather than directional; SEBI preserves the ability to impose strict exposure caps and margin rules via circulars, while the Regulations focus on high-level principles.

FEE AND EXPENSE STRUCTURE (TER FRAMEWORK AND RELATED CHARGES)

- **Conceptual Structure of Total Expense Ratio (TER) vs Base Expense Ratio (BER)**

1996 Regulations. Under Regulation 52 of the 1996 Regulations and related circulars, the total expense ratio (TER) functioned as a single, bundled ceiling. The maximum permissible TER for a scheme included the AMC's management fees, recurring operating and administrative expenses, and, within prescribed limits, brokerage and transaction costs. Many statutory and regulatory levies were also effectively subsumed within the TER cap. Investors therefore saw a single composite percentage figure representing the maximum all-inclusive cost that could be charged to the scheme on an ongoing basis.

2026 Regulations. The 2026 Regulations significantly recast this model. Regulation 67 structures the concept of Base Expense Ratio (BER), which now comprises only the AMC's management fees and specified operating expenses. Brokerage and transaction costs, statutory taxes (such as GST) and regulatory levies are segregated

and treated as separate cost components, charged on an actual basis and outside the BER. Thus, TER becomes a more disaggregated construct, with BER as the core recurring fee component and other pass-through costs itemised separately.

ELP Comments

The shift from a single bundled TER to a BER-centric, unbundled cost architecture enhances transparency and comparability across schemes and AMCs. Under the 1996 regime, embedding most costs within a single cap created scope for cross-subsidisation of expenses and made it difficult for investors to distinguish between AMC fees and third-party charges. The 2026 regime encourages cost discipline by tightening the BER limits while allowing bona fide statutory and regulatory imposts to be passed through transparently. It also aligns with SEBI's stated objective in recent consultation papers to simplify and standardise mutual fund fee disclosures.

- **Category-wise Expense Limits**

1996 Regulations. Regulation 52(6) of the 1996 Regulations prescribed category-wise maximum TER limits. Separate ceilings applied to equity-oriented schemes and to schemes other than equity-oriented, with further differentiation based on asset size slabs. These caps were inclusive of management fees, operating expenses and most regulatory charges, and were periodically modified through amendments and circulars.

2026 Regulations. The 2026 Regulations introduce BER limits that are generally lower than the historical TER caps under the 1996 regime. For example, BER for index funds and ETFs is reduced to 0.90%, while the BER cap for close-ended equity schemes is reduced from 1.25% to 1.00%. These percentages are exclusive of statutory and regulatory levies, which are charged separately on actuals. Regulation 66(7) sets out these category-wise BER caps and also provides the regulatory basis for SEBI to specify detailed category-level limits through subordinate instructions.

ELP Comments

The 2026 Regulations tighten the fee framework by lowering the core management and operating expense caps (BER), reflecting SEBI's emphasis on scale efficiencies and investor protection in a maturing industry with rising AUM. At the same time, by carving out levies that are beyond the control of AMCs, SEBI reduces the incentive for AMCs to cut essential risk-management or compliance expenditure merely to stay within a one-size-fits-all TER ceiling.

- **Additional Expense Headroom Linked to Exit Loads**

1996 Regulations. Regulation 52(6A)(c) permitted AMCs to charge additional expenses of up to 0.05% of daily net assets in certain schemes, subject to conditions including the applicability of exit loads and utilisation of exit load proceeds. This additional headroom effectively allowed a modest increase over the base TER cap, justified on the grounds of distribution, investor-education or penetration-related costs.

2026 Regulations. The 2026 Regulations do not retain any additional expense allowance linked to exit loads or similar features. There is no express provision analogous to Regulation 52(6A)(c); instead, the BER limits operate as hard caps for ongoing AMC and operating expenses, with only brokerage, transaction costs and statutory/regulatory levies being separately recoverable.

ELP Comments

The removal of the additional expense headroom marks a tightening of the cost regime. It signals SEBI's view that the significant growth and scale of the mutual fund industry no longer justify extra margins for distribution-driven expenses, especially where such costs may already be compensated through trail commissions within the permissible expense budget. It also simplifies disclosures by eliminating a relatively complex overlay on TER.

- **Performance-linked Fees**

1996 Regulations. The 1996 Regulations did not contain an explicit framework for performance-linked base fees in mainstream mutual fund schemes. While SEBI allowed some performance-fee structures in portfolio management services (PMS) and in exceptional cases for schemes with bespoke regulatory approvals, such arrangements were rare and heavily constrained. Mutual fund expense structures were largely asset-based and not explicitly benchmark-linked at the regulation-text level.

2026 Regulations. The 2026 Regulations introduce an optional performance-linked BER regime. The proviso to Regulation 66(7) permits AMCs to adopt performance-linked fee structures for eligible schemes, subject to detailed eligibility criteria, symmetry requirements (ensuring that outperformance rewards are balanced by fee reductions or clawbacks on underperformance), benchmark selection norms and enhanced disclosure obligations. SEBI is expected to specify the operational details through circulars, including look-back periods, high-water mark concepts and caps on performance-linked components.

ELP Comments

This is a significant conceptual innovation. It seeks to align AMC incentives more closely with investor outcomes by rewarding genuine alpha generation rather than mere asset gathering. At the same time, the optional and tightly circumscribed nature of the regime, along with symmetry and disclosure requirements, reflects SEBI's caution in avoiding excessive risk-taking or asymmetric payoff structures that could harm investors.

- **Exit Loads: Quantum and Utilisation**

Quantum under 1996 Regulations. The 1996 Regulations did not prescribe a standalone, explicit cap on exit loads. Instead, Regulation 49(3) set a statutory ceiling on the spread between sale and repurchase prices of units (93%–107% of NAV), which effectively limited the maximum load that could be imposed through pricing mechanisms. The precise structure and level of exit loads were otherwise left to scheme design, subject to SEBI's circulars and disclosure requirements.

Quantum under 2026 Regulations. The 2026 Regulations introduce a clear, hard cap on exit loads: Regulation 44(4) stipulates that exit load for open-ended schemes cannot exceed 3% of NAV. This replaces the earlier indirect mechanism (via pricing spread limits) with a transparent numerical ceiling that can be more easily monitored and enforced.

Utilisation under 1996 Regulations. Under the 1996 regime, SEBI-specified via circulars that exit load proceeds should be credited back to the scheme, thereby benefiting the continuing investors. However, the Regulations themselves did not expressly link exit load proceeds to TER or to AMC compensation.

Utilisation under 2026 Regulations. Regulation 44(3) of the 2026 Regulations codifies the principle that exit load proceeds must entirely accrue to the scheme and cannot be appropriated by the AMC or used to reduce

BER or TER caps. This explicitly embeds into the regulatory text what was earlier achieved through circular-level instructions.

ELP Comments

The 2026 Regulations both crystallise and tighten the exit load framework. The 3% statutory cap removes any residual ambiguity around permissible load levels, while the explicit requirement that exit loads accrue solely to the scheme reinforces the investor-protection objective that exiting investors should compensate remaining investors for redemption-related costs, not enrich the AMC.

- **Launch Expenses and New Fund Offer (NFO) Costs**

1996 Regulations. The 1996 Regulations and associated circulars historically allowed certain NFO and initial issue expenses to be amortised and charged to the scheme within defined limits, though this practice was progressively phased out and tightened over time. There was no overarching regulation in the main text explicitly mandating that all NFO expenses be borne by the AMC/sponsor/trustee.

2026 Regulations. Regulation 66(3) of the 2026 Regulations now clearly mandates that all expenses relating to the launch of a new fund offer up to the date of unit allotment must be borne by the AMC, trustee or sponsor and cannot be charged to the scheme. This reflects the mature stage of the industry, where AMCs are expected to absorb initial distribution and marketing costs.

ELP Comments

This represents a clear tightening relative to the earlier regime. By ensuring that unit holders do not bear upfront issue-related expenses, SEBI enhances fairness between early and later investors and removes a potential source of return drag on new schemes.

- **General Cap on Charges Recoverable from Investors**

1996 Regulations. Regulation 52 specified the categories of expenses that could be charged to schemes and required AMCs, sponsors or trustees to bear any expenditure in excess of the prescribed limits. While the list of permissible expenses was reasonably detailed, multiple circulars and interpretive clarifications were required to address new types of charges and ambiguities.

2026 Regulations. Regulation 67(2) introduces an explicit negative list approach: it provides that investors cannot be charged any amount other than (i) BER; (ii) brokerage and transaction costs within the specified caps; (iii) statutory and regulatory levies; and (iv) exit loads. Any other costs must be borne by the AMC, trustee or sponsor.

ELP Comments

The 2026 Regulations thus hard-code a clear and exhaustive list of recoverable charges, reversing the historical trend of ad hoc clarifications. This enhances investor confidence that no hidden or opaque fees can be recovered from schemes, and pushes AMCs to internalise costs that do not directly relate to managing scheme portfolios and complying with regulatory obligations.

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ADDITIONAL OPERATIONAL AND DISCLOSURE ASPECTS

Advertisements and Marketing

1996 Regulations. Regulation 30 of the 1996 Regulations required all advertisement material issued by a mutual fund to conform to the Advertisement Code set out in the Sixth Schedule. Advertisements were also required to be filed with SEBI within seven days from the date of issue. In practice, this meant that mutual funds had to produce and physically submit copies of print and electronic advertisements, adding a post-facto but document-heavy layer of oversight.

2026 Regulations. Regulation 28 of the 2026 Regulations continues to mandate conformity with an Advertisement Code, now contained in the Fifth Schedule. However, the obligation to submit hard copies of advertisements to SEBI within seven days has been removed. Instead, compliance is ensured through the general supervisory powers of SEBI, periodic inspections, and the requirement that advertisements be consistent with scheme documents and key information memoranda.

ELP Comments

Substantively, the advertising content standards remain largely unchanged: the focus continues to be on fairness, non-misleading presentation, appropriate risk disclosures and consistency with scheme documents. The key change is procedural: SEBI has dispensed with the routine filing requirement in favour of a more technology-neutral, risk-based supervision model. This eases the day-to-day compliance burden on mutual funds and intermediaries, while still enabling SEBI to scrutinise advertisements through inspections and targeted information requests.

Listing, Delisting and Initial Offering Window

1996 Regulations. Regulation 34 of the 1996 Regulations capped the offering period for mutual fund schemes (other than equity linked savings schemes) at 15 days. This "offering period" referred to the new fund offer window during which units of a scheme were first offered to investors at face value before the scheme became open for ongoing transactions (for open-ended schemes) or was closed to fresh subscriptions (for closed-ended schemes). Listing and delisting requirements for listed schemes and exchange-traded funds evolved through subsequent amendments and circulars, but the core regulations did not provide a great deal of flexibility on the initial offer duration.

2026 Regulations. Regulation 31 of the 2026 Regulations provides that the initial subscription period for schemes other than equity linked savings schemes shall be open for such duration as may be specified by SEBI. The terminology shifts from "offering period" to "initial subscription period", but in substance this continues to denote the first-time subscription window or new fund offer period. The detailed norms on listing, delisting and continued listing obligations for units of close-ended schemes and ETFs are largely addressed through SEBI circulars and the listing regulations, with the mutual fund regulations providing the enabling framework.

ELP Comments

Conceptually, the "offering period" under the 1996 Regulations and the "initial subscription period" under the 2026 Regulations describe the same stage in the scheme lifecycle—the NFO window. The principal regulatory change is that the rigid 15-day cap has been replaced by a duration to be specified by SEBI from time to time. This gives SEBI flexibility to calibrate NFO periods across product types and market conditions through subordinate legislation, while retaining the basic discipline of a finite, clearly defined launch window.

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- **Trustee Meetings: Frequency and Quorum**

1996 Regulations. Under the 1996 framework, the requirements regarding trustee meetings were embedded in the contents of the trust deed as prescribed in the Schedules. The trust deed had to provide that a meeting of the trustees would be held at least once in every two calendar months and that at least six such meetings would be held in every year. The deed also had to specify the quorum for trustee meetings and was required to state that no quorum would be constituted unless at least one independent trustee or director was present. As a result, even where a larger number of non-independent trustees attended a meeting, the presence of a single independent trustee was sufficient to meet the independence requirement for quorum.

2026 Regulations. The 2026 Regulations recalibrate both the minimum meeting frequency and the quorum composition, and shift the key elements from the trust deed into the regulatory text. The trust deed is now required to ensure that trustees meet at such frequency as may be necessary for effective discharge of their duties, with a minimum of one meeting every quarter and at least four meetings in every financial year. For quorum, the 2026 Regulations prescribe that (i) the quorum for a meeting of the trustees must consist of at least two trustees; and (ii) at least half of the trustees present and constituting the quorum must be independent trustees (or independent directors, in the case of a trustee company).

ELP Comments
On frequency, the minimum requirement is relaxed—from once in two calendar months (and six meetings a year) to once every quarter (and four meetings a year)—in recognition of more continuous information flows, board committees and digital oversight mechanisms now available to trustees. On quorum, however, the standard is materially tightened: the token requirement of one independent trustee has been replaced with a proportional test, requiring at least 50% of the quorum to be independent. This better aligns with SEBI's long-standing expectation that a substantial majority of trustees be independent and strengthens the quality of deliberation and oversight at trustee meetings.

- **Unitholder Communications and Disclosure Architecture**

1996 Regulations. The 1996 Regulations mandated investor communications predominantly through physical and print media. Regulation 22(e) required trustees to ensure that unitholders were informed of any change in the fundamental attributes of a scheme by written communication and newspaper advertisements, along with provision of an exit option. Various provisions, including Regulations 22(e), 25(26), 59(2) and 87(29), required publication of specified information in newspapers. Scheme financial disclosures under Regulation 59 were to be made through prescribed channels, often involving physical circulation and print publication of abridged scheme accounts and reports.

2026 Regulations. The 2026 Regulations move to a technology-neutral, digitally anchored communication framework. Regulation 22(9)(c) requires AMCs and trustees to ensure investor communication through electronic and publicly accessible mechanisms, including digital notices and website disclosures, while continuing to provide exit options where required (for example, on changes to fundamental attributes). Regulation 70 and related provisions shift scheme financial disclosures to centralised digital disclosure systems and AMC websites. Newspaper publication requirements are largely replaced by website-based and electronic communication, except where SEBI specifically mandates print publication in particular cases.

ELP Comments
The move from mandatory physical letters and newspaper advertisements to a digital-first, platform-agnostic disclosure architecture reflects both the growth of online distribution and servicing models and SEBI's emphasis on timely, wide-reach communication at lower cost. Operationally, this reduces recurring compliance and printing costs for AMCs while improving accessibility and auditability of disclosures through centralised systems. At the same time, the continued

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insistence on clear communication and exit options where scheme fundamentals change preserves core investor-protection safeguards.

Type of Insurer	Overall Exposure to VFs & AIFs (all taken together)	Exposure to single AIF / Venture Fund
Life Insurer	3% of respective Fund	10% of AIF / VF size or 20% of Overall Exposure as per (b), whichever is lower. The above '10%' limit shall be read as '20%' in case of Infrastructure Fund
General Insurer	5% of Investment Assets	10% of AIF / VF size or 20% of Overall Exposure as per (b), whichever is lower. The above '10%' limit shall be read as '20%' in case of Infrastructure Fund

ELP Comments

*On April 10, 2023, SEBI had issued a circular ("**SEBI Circular**") which allows an AIF to excuse any investor from participating in a specific investment where the investor's participation would breach applicable law and/or regulations. The investment manager may also exclude an investor if its participation would cause the scheme to breach applicable law and/or regulation. In such cases, the excused investor is not drawn down for that investment, bears no related costs, and receives no exposure or returns, and the capital requirement for that investment is met from all other investors.*

As per the SEBI Circular, an AIF may excuse any investor from participating in a specific investment at its discretion. The IRDAI Circular provides that insurers should contractually bind the AIF in which they invest to mandatorily excuse them from participating in any investment outside India in order to ensure that insurers are not in breach of Section 27E of the Insurance Act, 1938 on account of investing in an AIF. Going forward, any AIF which wishes to receive investments from insurance company should insert a provision in its PPM to provide that (i) any insurer which has invested in the AIF will be excused from any overseas investment so that it is in compliance with Section 27E of the Insurance Act, 1938 and (ii) all insurers who have invested in the AIF will receive a compliance certificate from the AIF confirming that all overseas investments are disclosed to the insurer, the "Excusal Rights" were validly invoked for insurer's investments and no cost related to overseas assets were charged to the insurer.

The IRDAI Master Circular can be found here.

The IRDAI Circular can be found here.

The SEBI Circular 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 author:

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