



CIRCULAR

SEBI/HO/IMD/DF3/CIR/P/2019/011

January 10, 2019

**All Mutual Funds/Asset Management Companies (AMCs)/
Trustee Companies/Boards of Trustees of Mutual Funds**

Sir/ Madam,

**Subject: Portfolio Concentration Norms for Equity Exchange Traded Funds (ETFs)
and Index Funds**

1. In order to address the risk related to portfolio concentration in ETFs and Index Funds, it has been decided to adopt the following norms:
 - a) The index shall have a minimum of 10 stocks as its constituents.
 - b) For a sectoral/ thematic Index, no single stock shall have more than 35% weight in the index. For other than sectoral/ thematic indices, no single stock shall have more than 25% weight in the index.
 - c) The weightage of the top three constituents of the index, cumulatively shall not be more than 65% of the Index.
 - d) The individual constituent of the index shall have a trading frequency greater than or equal to 80% and an average impact cost of 1% or less over previous six months.

Accordingly, any ETF/ Index Fund that seeks to replicate a particular Index shall ensure that such index complies with the aforesaid norms.

2. Compliance Procedure:

- a) The aforesaid norms shall be applicable to all ETFs/ Index Funds tracking equity indices.
- b) The ETF/ Index Fund issuer shall evaluate and ensure compliance to the aforesaid norms for all its ETFs/ Index Funds at the end of every calendar quarter.
- c) The ETF/Index Fund issuer shall ensure that the updated constituents of the Indices (for all its ETFs/ Index Funds) are available on the website of such ETF/Index Fund issuers at all points of time.



3. Applicability:

- a. All existing Equity ETFs/ Index Funds in the market: The issuers of all the existing Equity ETFs/ Index Funds are required to ensure adherence to the new norms by all the ETFs/ Index Funds within a period of three months from the date of issuance of this circular.
- b. All the Equity ETFs/ Index Funds where SEBI has issued final observations on the Scheme Information Document, but have not yet been launched: The issuers shall submit the compliance status vis-à-vis these norms to SEBI before launching such ETFs/ Index Funds.

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 the provision of Regulation 77 of SEBI (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,

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