



CIRCULAR

SEBI/HO/IMD/DF2/CIR/P/2019/17

January 16, 2019

To,

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

Sir/Madam,

**Subject: Norms for investment and disclosure by mutual funds in derivatives**

1. This has reference to SEBI Circular no. Cir/IMD/DF/11/2010, dated August 18, 2010 on Review of norms for investment and disclosure by Mutual Funds in derivatives.
2. Mutual Fund schemes are permitted to undertake transactions in equity derivatives in accordance with the exposure limits specified in the above mentioned circular. Paragraph 4 of the said circular, *inter-alia*, states that *Mutual Funds shall not write options or purchase instruments with embedded written options.*
3. Based on the suggestions of market participants and recommendations of Mutual Fund Advisory Committee (MFAC), it has been decided to permit mutual funds to write call options under a covered call strategy as prescribed below:

**Writing of Covered Call Options by Mutual Fund Schemes**

4. In partial modification to aforementioned circular, Mutual Fund schemes (except Index Funds and ETFs) may write call options only under a covered



call strategy for constituent stocks of NIFTY 50 and BSE SENSEX subject to the following:

- a. The total notional value (taking into account strike price as well as premium value) of call options written by a scheme shall not exceed 15% of the total market value of equity shares held in that scheme.
- b. The total number of shares underlying the call options written shall not exceed 30% of the unencumbered shares of a particular company held in the scheme. The unencumbered shares in a scheme shall mean shares that are not part of Securities Lending and Borrowing Mechanism (SLBM), margin or any other kind of encumbrances.
- c. At all points of time the Mutual Fund scheme shall comply with the provisions at paragraph 4(a) and 4(b) above. In case of any passive breach of the requirement at paragraph 4(a), the respective scheme shall have 7 trading days to rebalance the portfolio. During the rebalancing period, no additional call options can be written in the said scheme.
- d. In case a Mutual Fund scheme needs to sell securities on which a call option is written under a covered call strategy, it must ensure compliance with paragraphs 4 (a) and 4 (b) above while selling the securities.
- e. In no case, a scheme shall write a call option without holding the underlying equity shares. A call option can be written only on shares which are not hedged using other derivative contracts.
- f. The premium received shall be within the requirements prescribed in terms of paragraph 5 of SEBI circular dated August 18, 2010 i.e. the total gross exposure related to option premium paid and received must not exceed 20% of the net assets of the scheme.



- g. The exposure on account of the call option written under the covered call strategy shall not be considered as exposure in terms of paragraph 3 of SEBI Circular no. Cir/IMD/DF/11/2010, dated August 18, 2010.
- h. The call option written shall be marked to market daily and the respective gains or losses factored into the daily NAV of the respective scheme(s) until the position is closed or expired.
5. For schemes intending to use covered call strategy, the risks and benefit of the same, must be disclosed in the Scheme Information Document.
6. In terms of paragraphs 11 and 13 of SEBI Circular no. Cir/IMD/DF/11/2010, dated August 18, 2010 call options written shall be disclosed in the following format:

Underlying	No. of contracts	% of underlying shares	Option price when sold	Current option price	Margin maintained in Rs. Lakhs
Call options written as percentage of total market value of equity shares held in the scheme					
For the period ended ... specify the following for call options written which have already been exercised/expired					
<ul style="list-style-type: none"><li>• Total Number of contracts entered into</li><li>• Gross Notional Value of contracts</li><li>• Net Profit/Loss on all contracts</li></ul>					

7. For existing schemes, writing of call options shall be permitted subject to appropriate disclosure and compliance with Regulation 18 (15A) of SEBI (Mutual Funds) Regulations, 1996.



**भारतीय प्रतिभूति और विनिमय बोर्ड**  
**Securities and Exchange Board of India**

8. All other provisions of the circular dated August 18, 2010 in respect of norms for investment and disclosure by Mutual Funds in derivatives shall remain the same.
9. This circular is issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, read with the provisions 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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