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CDSL/OPS/RTA/POLCY/2025/20

January 20, 2025

SEBI CIR - DISCLOSURE OF RISK ADJUSTED RETURN - INFORMATION RATIO FOR MUTUAL FUND SCHEMES

Issuers / RTAs are advised to refer to the SEBI Circular no. **SEBI/HO/IMD/IMD-PoD-2/P/CIR/2025/6** dated January 17, 2025, regarding Disclosure of Risk adjusted Return - Information Ratio (IR) for Mutual Fund Schemes [refer Annexure].

Issuers / RTAs are advised to take note of the same.

Queries regarding this communiqué may be addressed to: CDSL – Helpdesk Emails may be sent to: dptasupport@cdslindia.com and connect through our IVR Number 022-62343333.

For and on behalf of
Central Depository Services (India) Limited

sd/-

Nilesh Shah
Asst. Vice President



CIRCULAR

SEBI/HO/IMD/IMD-PoD-2/P/CIR/2025/6

January 17, 2025

To

All Mutual Funds

All Asset Management Companies (AMCs)

All Trustee Companies/ Boards of Trustees of Mutual Funds

Association of Mutual Funds in India (AMFI)

Dear Sir/Madam,

Subject: Disclosure of Risk adjusted Return - Information Ratio (IR) for Mutual Fund Schemes.

1. The extant provisions of the SEBI (Mutual Funds) Regulations, 1996 (hereinafter referred to as “MF Regulations”) and Master Circular specified thereunder *inter alia* mandate filing of periodic information regarding schemes’ performance by AMCs. Apart from the same, appropriate disclosures pertaining to scheme returns are also made voluntarily, in various other documents / disclosures by AMCs.
2. In addition to the above, a need has been felt to mandate disclosure of the “Risk Adjusted Return” (RAR), which shall represent a more holistic measure of a scheme’s performance.
3. Considering the significance of volatility of performance in determining the suitability of MF schemes, Information Ratio (IR) is an established financial ratio to measure the RAR of any scheme portfolio. It is often used as a measure of a portfolio manager's level of skill and ability to generate excess returns, relative to a benchmark and also attempts to identify the consistency of the performance by incorporating standard deviation/risk factor into the calculation.
4. In order to bring more transparency in disclosures made by AMCs and aid better decision making by investors, proposed disclosure of IR as a financial metric to measure the RAR of a scheme portfolio, was placed for public consultation and deliberated in Mutual Funds Advisory Committee (MFAC).
5. Based on the recommendation of MFAC and analysis of public feedback, the following has been decided:

A. Disclosure of Information Ratio

- 5.1.1. Mutual Funds/ AMCs shall disclose IR of a scheme portfolio on their website along with performance disclosure, on a daily basis.
- 5.1.2. AMFI shall ensure that such disclosure shall be available on its website in a comparable, downloadable (spreadsheet) and machine readable format.
- 5.1.3. IR disclosure shall be applicable only for equity oriented schemes.

B. Methodology for calculation of IR for each category of Mutual Fund schemes

- 5.1.4. In order to bring uniformity across different MFs, the following shall be taken into account for calculation of IR for Equity oriented Mutual Fund schemes.
- IR shall be calculated as under:
$$\frac{(\text{Portfolio Rate of Returns less Benchmark Rate of Returns})}{\text{Standard Deviation of Excess Return}}$$

Excess Return= Portfolio Rate of Returns less Benchmark Rate of Returns
 - Benchmark used in the above formula shall be the Tier 1 benchmark currently used by the equity oriented Mutual Fund schemes.
 - Volatility/Standard deviation shall be calculated on the basis of daily return values.
 - Daily portfolio return shall be calculated using arithmetic function.

C. Awareness amongst Investors:

- 5.1.5. In order to ensure better understandability about IR by investors, adequate steps shall be undertaken by AMCs and AMFI to educate investors about RAR, IR and their significance in scheme performance evaluation. In addition, an allocation shall be earmarked from the budget for investor education, leveraging social/mass media channels to maximize outreach and impact.

D. Format for disclosure:

- 5.1.6. The format for disclosure of IR on the websites of AMCs and AMFI shall be accessed through the following link:

https://www.sebi.gov.in/sebi_data/commondocs/jan-2025/AnnexureA_to_circular_1_p.xlsx



5.1.7. In the aforesaid format, a hyperlink to the AMFI website for IR column shall be embedded, providing clear and concise explanation on the following, in easy-to-understand language:

5.1.7.1. Explaining IR

5.1.7.2. Formula for calculation of IR

5.1.7.3. Interpretation of IR with sufficient illustrations covering various scenarios.

5.1.8. In order to ensure uniformity in explanation of IR across the MF industry, AMCs shall provide a hyperlink in the aforesaid format on their websites, redirecting to the AMFI website providing detailed explanation of the IR.

6. The provisions of this circular shall come into force with effect within three months from issuance of this circular.
7. The circular is issued in exercise of powers conferred under Section 11(1) of Securities and Exchange Board of India Act, 1992, read with the provisions of Regulation 58(1) & Regulation 77 of SEBI (Mutual Funds) Regulations, 1996, to protect the interest of investors in securities and to promote the development of, and to regulate the Securities Market.
8. This circular is available on SEBI website at <http://www.sebi.gov.in> under the category "Legal -> Circulars"

Yours faithfully,

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