

CIRCULAR

SEBI/HO/IMD/DF2/CIR/P/2019/101

September 20, 2019

**All Mutual Funds (MFs)/
Asset Management Companies (AMCs)/
Trustee Companies/ Board of Trustees of Mutual Funds/
Association of Mutual Funds in India (AMFI)**

Sir / Madam,

Subject: Risk management framework for liquid and overnight funds and norms governing investment in short term deposits

A. Risk management framework for liquid and overnight funds

In order to augment the risk management framework for liquid and overnight funds, the following has been decided:

1. Liquid funds shall hold at least 20% of its net assets in liquid assets. For this purpose, 'liquid assets' shall include Cash, Government Securities, T-bills and Repo on Government Securities.

In case, the exposure in such liquid assets falls below 20% of net assets of the scheme, the AMC shall ensure compliance with the above requirement before making any further investments.

2. Liquid Funds and Overnight Funds shall not park funds pending deployment in short term deposits of scheduled commercial banks.



3. Liquid Funds and Overnight Funds shall not invest in debt securities having structured obligations (SO rating) and/ or credit enhancements (CE rating). However, debt securities with government guarantee shall be excluded from such restriction.
4. Mutual Fund shall levy exit load on investors who exit the Liquid Fund within 7 days of their investment. The same shall be effective for all fresh investments from 30th day from the date of this circular. It is further clarified that the aforesaid requirement to levy exit load shall not be applicable to any investments made in liquid funds prior to 30th day from the date of this circular.

To ensure uniformity across the industry, AMFI is advised to prescribe the minimum exit load in a liquid fund on a graded basis as specified above in consultation with SEBI.

5. The cut-off timings for applicability of Net Asset Value (NAV) in respect of purchase of units in liquid and overnight funds shall be 1:30 p.m. instead of 2:00 p.m. Accordingly, paragraph B - 2 (a) of SEBI Circular No. Cir/IMD/DF/19/2010 dated November 26, 2010 stands modified.

B. Investment and advisory fees for parking of funds in short term deposits

1. In partial modification to SEBI Circular No. SEBI/IMD/CIRNo.1/91171/07 dated April 16, 2007, paragraph 6 on charging of investment management and advisory fees shall read as under:

“6. Asset Management Company (AMC) shall not be permitted to charge investment management and advisory fees for parking of funds in short term deposits of scheduled commercial banks.”



C. Applicability

1. The provision at paragraph A-1 shall be effective from April 1, 2020.
2. The provision at paragraph A-2 and A-3 shall be effective for all fresh investments with immediate effect. Existing investments in this regard shall be grandfathered.
3. The provisions at paragraph A-5 and B-1 shall be effective from 30th day from the date of this circular.

- D.** 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,

Hruda Ranjan Sahoo

Deputy General Manager

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