



CIRCULAR

SEBI/HO/IMD/DF4/CIR/P/2020/202

October 08, 2020

**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,

**Sub: Guidelines on Inter Scheme Transfers of Securities**

Presently, transfers of securities from one scheme to another scheme in the same mutual fund is allowed only if such transfers are done at the prevailing market price for quoted instruments on spot basis and the securities so transferred are in conformity with the investment objective of the scheme to which such transfer has been made.

In order to ensure that such Inter Schemes Transfers (ISTs) of securities are in conformity with the above objective, the following additional safeguards have been prescribed:

1. In case of Close Ended Schemes, IST purchases would be allowed within “three” business days of allotment pursuant to New Fund Offer (NFO) and thereafter, no ISTs shall be permitted to/from Close Ended Schemes.
2. In case of Open Ended Schemes, ISTs may be allowed in the following scenarios:

**a) For meeting liquidity requirement in a scheme in case of unanticipated redemption pressure:**

AMCs shall have an appropriate Liquidity Risk Management (LRM) Model at scheme level, approved by trustees, to ensure that reasonable liquidity requirements are adequately provided for. Recourse to ISTs for managing liquidity will only be taken after the following avenues for raising liquidity have been attempted and exhausted:

- I. Use of scheme cash & cash equivalent



- II. Use of market borrowing
- III. Selling of scheme securities in the market
- IV. After attempting all the above, if there is still a scheme level liquidity deficit, then out of the remaining securities, outward ISTs of the optimal mix of low duration paper with highest quality shall be effected.

The use of market borrowing before ISTs will be optional and Fund Manager may at his discretion take decision on borrowing in the best interest of unitholders. The option of market borrowing or selling of security as mentioned at para .2.a.II & 2.a.III above may be used in any combination and not necessarily in the above order. In case option of market borrowing and/or selling of security is not used, the reason for the same shall be recorded with evidence.

**b) For Duration/ Issuer/ Sector/ Group rebalancing**

- I. ISTs shall be allowed only to rebalance the breach of regulatory limit.
  - II. ISTs can be done where any one of duration, issuer, sector and group balancing is required in both the transferor and transferee schemes. Different reasons cannot be cited for transferor and transferee schemes except in case of transferee schemes is being a Credit Risk scheme.
  - III. In order to guard against possible mis-use of ISTs in Credit Risk scheme, trustees shall ensure to have a mechanism in place to negatively impact the performance incentives of Fund Managers, Chief Investment Officers (CIOs), etc. involved in process of ISTs in Credit Risk scheme, in case the security becomes default grade after the ISTs within a period of one year. Such negative impact on performance shall mirror the existing mechanism for performance incentives of the AMC.
3. No ISTs of a security shall be allowed, if there is negative news or rumors in the mainstream media or an alert is generated about the security, based on internal credit risk assessment in terms of clause F of SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2019/104 dated October 01, 2019 during the previous four months.



4. AMC shall ensure that Compliance Officer, Chief Investment Officer and Fund Managers of transferor and transferee schemes have satisfied themselves that ISTs undertaken are in compliance with the regulatory requirements. "Template" (Annexure – A) and documentary evidence in this regard shall be maintained by the AMC for all ISTs.
5. If security gets downgraded following ISTs, within a period of four months, Fund Manager of buying scheme has to provide detailed justification /rationale to the trustees for buying such security.
6. The circular shall be applicable with effect from January 1, 2021.
7. 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,

**Lamber Singh**

**Deputy General Manager**

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## Annexure A

Followings are the templates to be followed before carrying out of ISTs

a. **For meeting liquidity requirement due to redemption pressure**

Template for ISTs due to Liquidity Management		
ISIN of security to be transferred		
Name of security to be transferred		
Date and time of ISTs		
Particular	Transferor Scheme	Transferee Scheme
Category of scheme		
As per LRM minimum cash & cash equivalent required for the scheme		
Net cash position after projected inflow and outflow		
Line available and borrowing utilized (record, in case borrowing was not utilized) #		Not Applicable
Sale proceeds of the securities utilized (record with evidence including screenshot of Request For Quote (RFQ), the attempt to sell liquid assets in market)		Not Applicable
If all above is not sufficient then ISTs of optimal mix of low duration paper with highest quality paper and so on		Not Applicable
Declaration: <ol style="list-style-type: none"><li>1. IST is in the interest of unit holders.</li><li>2. Quality of security under ISTs is not suspect i.e. no adverse news or rumors in the mainstream media about the said security, nor any credit alert for last four months.</li><li>3. Fund Manager of transferee scheme confirms that he/she has done full credit risk assessment of security before buying the same through ISTs, and the same is documented.</li></ol>		
<b>Name and Signature of Fund Managers</b>		
<b>Name and Signature of Chief Investment officer</b>		
<b>Name and Signature of Compliance officer</b>		

# The use of market borrowing before ISTs will be optional and at the discretion of Fund Managers.



b. For Duration rebalancing

Template for ISTs to rebalance Duration		
ISIN of security to be transferred		
Name of security to be transferred		
Date and time of ISTs		
Particular	Transferor Scheme	Transferee Scheme
Category of scheme		
Pre trade duration of scheme		
Post trade duration of scheme		
Interest rate view of Fund Manager		
Request for Quote (RFQ) screen shot		
Declaration: <ol style="list-style-type: none"><li>1. IST is in the interest of unit holders.</li><li>2. Quality of security under ISTs is not suspect i.e. no adverse news or rumors in the mainstream media about the said security, nor any credit alert for last four months.</li><li>3. Fund Manager of transferee scheme confirms that he/she has done full credit risk assessment of security before buying the same through ISTs, and the same is documented.</li></ol>		
<b>Name and Signature of Fund Managers</b>		
<b>Name and Signature of Chief Investment officer</b>		
<b>Name and Signature of Compliance officer</b>		

c. For Issuer/Sector/Group rebalancing

Template for ISTs to rebalance Issuer/Sector/Group concentration		
ISIN of security to be transferred		
Name of security to be transferred		
Date and time of ISTs		
Particular	Transferor Scheme	Transferee Scheme
Category of scheme		
Pre trade concentration of Issuer/Sector/Group		
Limit specified in SEBI Regulations/circular/ guidelines for Issuer/Sector/Group		



Post trade concentration of Issuer/Sector/Group		
Outlook of Fund Manager of transferee scheme about security at the time ISTs		
Request for Quote screen shot		
Declaration: <ol style="list-style-type: none"><li>1. IST is in the interest of unit holders.</li><li>2. Quality of security under ISTs is not suspect i.e. no adverse news or rumors in the mainstream media about the said security, nor any credit alert for last four months.</li><li>3. Fund Manager of transferee scheme confirms that he/she has done full credit risk assessment of security before buying the same through ISTs, and the same is documented.</li></ol>		
<b>Name and Signature of Fund Managers</b>		
<b>Name and Signature of Chief Investment officer</b>		
<b>Name and Signature of Compliance officer</b>		