



CIRCULAR

SEBI/HO/IMD/IMD-II DOF3/P/CIR/2021/583

June 25, 2021

All Mutual Funds/

Asset Management Companies (AMCs)/

Trustee Companies/Boards of Trustees of Mutual Funds/

Association of Mutual Funds in India (AMFI)

Sir/ Madam,

Subject: Prudential norms for liquidity risk management for open ended debt schemes

1. SEBI vide circular SEBI/HO/IMD/DF3/CIR/P/2020/229 dated November 6, 2020 has specified norms regarding holding of liquid assets in open ended debt schemes & stress testing of open ended debt schemes.
2. A committee was set up to deliberate on norms regarding holding of liquid assets in open ended debt schemes, as mentioned in para 3 of the aforementioned circular. Based on the recommendations of the said committee, AMFI is advised to prescribe a suitable framework, in consultation with SEBI, for liquidity risk management for open ended debt schemes (except Overnight Fund, Gilt Fund and Gilt Fund with 10-year constant duration) within a period of one month from the date of issuance of this circular. The said framework shall be adopted by all AMCs.
3. With regard to para 1(b) of the aforementioned circular, following is clarified:
 - a. For all regulatory limit calculations other than Asset Allocation Limits (e.g. for Macaulay Duration, Risk-o-meter, investment restrictions



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pertaining to issuer, sector and group), the base to be considered is 100% of Net Assets.

- b. For asset allocation limits (applicable for Banking and PSU Bond Fund, Floater Fund, Credit Risk Fund and Corporate Bond Funds scheme categories in terms of SEBI circular on 'Categorization and Rationalization of Mutual Fund Schemes') the base shall be considered as Net assets excluding the extent of minimum stipulated liquid assets i.e. 10%. Illustration in this regard is given as Annexure A.

Applicability of the circular

4. This framework specified by AMFI as referred under para 2 shall come into force with effect from December 1, 2021, for all the existing open ended debt schemes (except Overnight Fund, Gilt Fund and Gilt Fund with 10 year constant duration) and schemes to be launched on or thereafter. However, mutual funds may at their discretion, choose to adopt the framework specified by AMFI before the effective date.
5. 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) Regulation, 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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Annexure A

Name of scheme	Current Asset Allocation (%)	Revised Asset Allocation
Banking and PSU Bond Fund	Minimum investment in debt instruments of banks, Public Sector Undertakings, Public Financial Institutions and Municipal Bonds – 80% of total assets	Minimum 72%** allocation to Banking & PSU Assets

**80% of (100% reduced to the extent of minimum stipulated liquid assets i.e. 10%), i.e. 80% of 90% of Net Assets.