



CIRCULAR

SEBI/HO/IMD/DF2/CIR/P/2019/104

October 01, 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: Review of investment norms for mutual funds for investment in Debt and Money Market Instruments**

A. A copy of the Gazette Notification No. [SEBI/LAD-NRO/GN/2019/37](#) dated September 23, 2019 on amendments to SEBI (Mutual Funds) Regulations, 1996 is enclosed for reference.

**B. Investment in Listed and Unrated Debt instruments**

In order to enhance transparency and disclosure for investment in debt and money market instruments by mutual funds, the following has been decided:

1. Mutual fund scheme shall not invest in unlisted debt instruments including commercial papers (CPs), other than (a) government securities, (b) other money market instruments and (c) derivative products such as Interest Rate Swaps (IRS), Interest Rate Futures (IRF), etc. which are used by mutual funds for hedging.

However, mutual fund schemes may invest in unlisted Non-Convertible Debentures (NCDs) not exceeding 10% of the debt portfolio of the scheme subject to the condition that such unlisted NCDs have a simple structure (i.e. with fixed and uniform coupon, fixed maturity period, without any



options, fully paid up upfront, without any credit enhancements or structured obligations) and are rated and secured with coupon payment frequency on monthly basis.

2. The implementation of the provisions at paragraph B(1) above would be subject to the following:

a) Timelines and investment limits:

<i>Timeline (As on)</i>	<i>31/03/2020</i>	<i>30/06/2020</i>
<i>Maximum investment in unlisted NCDs as % of the debt portfolio of the scheme.</i>	<i>15%</i>	<i>10%</i>

b) The existing investments of mutual fund schemes in unlisted debt instruments, including NCDs, may be grandfathered till maturity date (as stands as on the date of this circular) of such instruments.

c) All fresh investments in unlisted NCDs shall be made only in NCDs satisfying the conditions mentioned at paragraph B(1) above.

d) Extension of maturity or rolling over of existing investments in unlisted NCDs shall be subject to the prescribed limits mentioned at paragraph B(2)(a) and the requirements mentioned at paragraph B(1) above.

e) For mutual fund schemes whose existing investments in unlisted NCDs are more than the threshold limit as on the timeline mentioned at paragraph B(2)(a), all fresh investments in NCDs by mutual fund schemes, shall only be in listed NCDs till they comply with the above mentioned requirements.

3. For the purpose of the provisions of paragraph B, listed debt instruments shall include listed and to be listed debt instruments.



4. All fresh investments by mutual fund schemes in CPs would be made only in CPs which are listed or to be listed with effect from one month from the date of operationalization of framework for listing of CPs or January 01, 2020, whichever is later.
5. Further, investment in unrated debt and money market instruments, other than government securities, treasury bills, derivative products such as Interest Rate Swaps (IRS), Interest Rate Futures (IRF), etc. by mutual fund schemes shall be subject to the following:
  - a. Investments should only be made in such instruments, including bills re-discounting, usance bills, etc., that are generally not rated and for which separate investment norms or limits are not provided in SEBI (Mutual Fund) Regulations, 1996 and various circulars issued thereunder.
  - b. Exposure of mutual fund schemes in such instruments, shall not exceed 5% of the net assets of the schemes.
  - c. All such investments shall be made with the prior approval of the Board of AMC and the Board of trustees.
  - d. The existing investments of mutual fund schemes in such instruments in excess of the aforesaid limit of 5% may be grandfathered till maturity date (as stands as on the date of this circular) of such instruments.

**C. Restrictions on Investment in debt instruments having Structured Obligations / Credit Enhancements:**

1. The investment of mutual fund schemes in the following instruments shall not exceed 10% of the debt portfolio of the schemes and the group exposure in such instruments shall not exceed 5% of the debt portfolio of the schemes:



- a. Unsupported rating of debt instruments (i.e. without factoring-in credit enhancements) is below investment grade and
- b. Supported rating of debt instruments (i.e. after factoring-in credit enhancement) is above investment grade.

For the purpose of this provision, 'Group' shall have the same meaning as defined in paragraph B(3)(b) of SEBI Circular No.SEBI/HO/IMD/DF2/CIR/P/2016/35 dated February 15, 2016.

2. Investment limits as mentioned in paragraph C(1) above shall not be applicable on investments in securitized debt instruments, as defined in SEBI (Public Offer and Listing of Securitized Debt Instruments) Regulations 2008.
3. Investment in debt instruments, having credit enhancements backed by equity shares directly or indirectly, shall have a minimum cover of 4 times considering the market value of such shares.

AMCs may ensure that the investment in debt instruments having credit enhancements are sufficiently covered to address the market volatility and reduce the inefficiencies of invoking of the pledge or cover, whenever required, without impacting the interest of the investors. In case of fall in the value of the cover below the specified limit, AMCs should initiate necessary steps to ensure protection of the interest of the investors.

4. The existing investments by mutual fund schemes in debt instruments that are not in terms of the provisions of paragraph C may be grandfathered till maturity date (as stands as on the date of this circular) of such debt instruments.
5. Details of investments in debt instruments having structured obligations or credit enhancement features should be disclosed distinctively in the monthly portfolio statement of mutual fund schemes.



**D. Sector Level Exposure Limits**

1. In partial modification to paragraph 2 on sector exposure as specified in SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2017/14 dated February 22, 2017, the following has been decided:

- a. The sector exposure limit has been capped at 20% as against 25%.
- b. The additional exposure limits provided for HFCs in financial services sector has been capped at 10% as against 15%. Further, an additional exposure of 5% of the net assets of the scheme has been allowed for investments in securitized debt instruments based on retail housing loan portfolio and/or affordable housing loan portfolio.

However the overall exposure in HFCs shall not exceed the sector exposure limit of 20% of the net assets of the scheme.

- c. Further, appropriate disclosures in this regard shall be made in Scheme Information Document (SID) and Key Information Memorandum (KIM) of debt schemes.

**E. Group Level Exposure Limits**

1. In partial modification to paragraph B(3)(a) regarding investment limits on group exposure as specified in SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/35 dated February 15, 2016, the following additional provisions have been decided:

- a. The investments by debt mutual fund schemes in debt and money market instruments of group companies of both the sponsor and the asset management company shall not exceed 10% of the net assets of the scheme. Such investment limit may be extended to 15% of the net assets of the scheme with the prior approval of the Board of Trustees.



- b. For the purpose of this provision, 'Group' shall have the same meaning as defined in paragraph B(3)(b) of SEBI Circular No.SEBI/HO/IMD/DF2/CIR/P/2016/35 dated February 15, 2016.

**F. Internal Credit Risk Assessment at the AMC**

Paragraph-D of SEBI Circular No.SEBI/HO/IMD/DF2/CIR/P/2016/42 dated March 18, 2016, on internal credit assessment is modified as under:

*"In order to ensure that mutual funds are able to carry out their own credit assessment of assets and reduce reliance on credit rating agencies, all AMCs are required to have an appropriate policy and system in place to conduct an in-house credit risk assessment/ due diligence of debt and money market instruments/ products at all points of time i.e. before investing in such instruments/ products and also on continuous basis in order to have proper assessment of the credit risk of the portfolio. Further, the internal policy should have adequate provisions to generate early warning signals (including yield based alerts) on deterioration of credit profile of the issuer. Based on the alerts generated, the AMCs shall take appropriate measures and report the same to trustees."*

**G. Applicability**

1. The provisions at paragraph C shall be effective for all fresh investments with effect from January 1, 2020.
2. The revised exposure limits at sector level as specified in paragraph D shall be applicable as under:
  - a. All new schemes and fresh investments by existing schemes shall henceforth be in compliance with the revised exposure limits.



- b. Existing open ended mutual fund schemes shall comply with the revised limits for sector exposure by April 01, 2020.
  - c. The investments of existing close ended and interval schemes may be grandfathered. However, if such close ended and interval schemes sell their existing investments, then all fresh investments by such schemes shall be subject to the aforesaid limits.
3. The provisions at paragraph E and F shall be effective from 30<sup>th</sup> day from the date of this circular.
- H. 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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