



CIRCULAR

SEBI/HO/IMD/DF3/CIR/P/2020/229

November 06, 2020

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: Norms regarding holding of liquid assets in open ended debt schemes & stress testing of open ended debt schemes

1. In order to augment the liquidity risk management framework for all open ended debt schemes, defined in SEBI circulars SEBI/HO/IMD/DF3/CIR/P/2017/114 dated October 6, 2017 and SEBI/HO/IMD/DF3/CIR/P/2017/126 dated December 4, 2017, the following has been decided:
 - a. All open ended debt schemes (except Overnight Fund, Liquid Fund, Gilt Fund and Gilt Fund with 10 year constant duration) shall hold at least 10% of their net assets in liquid assets. For this purpose, 'liquid assets' shall include Cash, Government Securities, T-bills and Repo on Government Securities.
 - b. The liquid assets specified at para 1(a) above shall not be included for determining the scheme characteristics of the open ended debt schemes as specified in SEBI circulars SEBI/HO/IMD/DF3/CIR/P/2017/114 dated October 6, 2017 and SEBI/HO/IMD/DF3/CIR/P/2017/126 dated December 4, 2017.
 - c. In case, the exposure in such liquid assets / securities falls below the threshold mandated at para 1(a) above, the Asset Management



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Companies (AMCs) shall ensure compliance with the above requirement before making any further investments.

2. SEBI vide circular No. CIR/IMD/DF/03/2015 dated April 30, 2015 mandated Stress Testing of Liquid Funds and Money Market Fund schemes. Based on the recommendations of Mutual Fund Advisory Committee (MFAC), it is decided to mandate all open ended debt schemes (except overnight scheme) to conduct stress testing. Further, on similar lines of Para 2 of aforementioned circular dated April 30, 2015, AMC shall stipulate the guidelines to carry out stress testing for the aforementioned debt schemes.
3. A committee has been set up to deliberate on the subject of the circular and give its recommendations. The recommendations will be evaluated and based on the same the norms regarding holding of liquid assets and methodology of stress testing may undergo change.
4. The provisions at para 1 above shall be effective from February 01, 2021 and the provision at para 2 above shall be effective from December 01, 2020.
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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