



Securities and Exchange Board of India

CIRCULAR

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November 26 ,2010

All Mutual Funds/Asset Management Companies (AMCs)/
Trustee Companies/Boards of Trustees of Mutual Funds

Dear Sir/Madam,

Sub: Circular for Mutual Funds

A. Interval Schemes/Plans

1. It has been noticed that certain Scheme Information Documents provide that the subscription to the scheme can be made during a specific period (known as specified transaction period) and the repurchase of units is permitted on all business days subject to applicable loads (except for redemption during specified transaction period when no load is charged). These schemes are generally referred to as 'interval schemes'.
2. As per the current regulation, there is no restriction on tenure of securities in which interval scheme can invest. This read with daily redemption option may result in asset liability mismatch. In line with the changes made in the SEBI (Mutual Funds) Regulations, 1996 regarding close ended schemes, it has been decided that, henceforth, for all interval schemes/plans
 - i. The units shall be mandatorily listed.
 - ii. No redemption/repurchase of units shall be allowed except during the specified transaction period (the period during which both subscription and redemption may be made to and from the scheme). The specified transaction period shall be of minimum 2 working days.
 - iii. Minimum duration of an interval period in an interval scheme/plan shall be 15 days.
 - iv. Investments shall be permitted only in such securities which mature on or before the opening of the immediately following specified transaction period.

Explanation:

In case of securities with put and call options the residual time for exercising the put option of the securities shall not be beyond the opening of the immediately following transaction period.

3. Applicability:

The AMC shall ensure compliance with the requirements mentioned in Clause 2 from the date of next specified transaction period or April 1, 2011 whichever is later.

Schemes for which observations (final) under Regulation 29 of SEBI (Mutual Funds) Regulations, 1996 have been issued but are yet to be launched would be required to carry out the changes in Scheme Information Document and file the same with SEBI before the launch.

B. Uniform cut-off timings for applicability of Net Asset Value (NAV) of Mutual Fund scheme(s)/plan(s).

- 1 As per the current regulations, in respect of purchase of units in liquid schemes, irrespective of the time of receipt of application, where the funds are not available for utilization before the cut-off time, the closing NAV of the day immediately preceding the day on which the funds are available for utilization shall be applicable;

In respect of purchase of units in Income/ Debt oriented schemes (other than liquid fund schemes and plans) with amount equal to or more than Rs. 1 crore, irrespective of the time of receipt of application, the closing NAV of the day on which the funds are available for utilization shall be applicable.

It is observed that mutual funds are deploying funds without receiving clear funds in the scheme account. As a matter of good practice and to avoid systemic risk, it has been decided to modify certain provisions of the SEBI Circular No. SEBI/IMD/CIR No.11/78450/06 dated October 11, 2006 as per the following details.

- 2 With regard to Clause 5(1) of SEBI Circular No. SEBI/IMD/CIR No.11/78450/06 dated October 11, 2006 which specifies cut-off timings for liquid fund schemes and plans, it is clarified that for determining the applicable NAV

- a. The following cut-off timings shall be observed by a mutual fund in respect of purchase of units in liquid fund schemes and their plans, and the following NAVs shall be applied for such purchase:

- i. where the application is received upto 2.00 p.m. on a day and funds are available for utilization before the cut-off time without availing any credit facility, whether, intra-day or otherwise – the closing NAV of the day immediately preceding the day of receipt of application;

- ii. where the application is received after 2.00 p.m. on a day and funds are available for utilization on the same day without availing any credit facility, whether, intra-day or otherwise – the closing NAV of the day immediately preceding the next business day ; and
 - iii. irrespective of the time of receipt of application, where the funds are not available for utilization before the cut-off time without availing any credit facility, whether, intra-day or otherwise – the closing NAV of the day immediately preceding the day on which the funds are available for utilization.
 - b. For allotment of units in respect of purchase in liquid schemes, it shall be ensured that:
 - i. Application is received before the applicable cut-off time.
 - ii. Funds for the entire amount of subscription/purchase as per the application are credited to the bank account of the respective liquid schemes before the cut-off time.
 - iii. The funds are available for utilization before the cut-off time without availing any credit facility whether intra-day or otherwise, by the respective liquid schemes.
 - c. For allotment of units in respect of switch-in to liquid schemes from other schemes, it shall be ensured that :
 - i. Application for switch-in is received before the applicable cut-off time.
 - ii. Funds for the entire amount of subscription/purchase as per the switch-in request are credited to the bank account of the respective switch-in liquid schemes before the cut-off time.
 - iii. The funds are available for utilization before the cut-off time without availing any credit facility whether intra-day or otherwise, by the respective switch-in schemes.
- 3 With regard to Clause 6(2A) of SEBI Circular No. SEBI/IMD/CIR No. 11/142521/08 dated October 24, 2008 which specifies the applicability of NAV for income/debt oriented mutual fund schemes/plans other than liquid schemes, it is clarified that for determining the applicable NAV
 - a. For allotment of units in respect of purchase in income/debt oriented mutual fund schemes/plans other than liquid schemes, it shall be ensured that:
 - i. Application is received before the applicable cut-off time.
 - ii. Funds for the entire amount of subscription/purchase as per the application are credited to the bank account of the respective schemes before the cut-off time.
 - iii. The funds are available for utilization before the cut-off time without availing any credit facility whether intra-day or otherwise, by the respective scheme.

- b. For allotment of units in respect of switch-in to income/debt oriented mutual fund schemes/plans other than liquid schemes from other schemes, it shall be ensured that:
- i. Application for switch-in is received before the applicable cut-off time.
 - ii. Funds for the entire amount of subscription/purchase as per the switch-in request are credited to the bank account of the respective switch-in income/debt oriented mutual fund schemes/plans before the cut-off time.
 - iii. The funds are available for utilization before the cut-off time without availing any credit facility whether intra-day or otherwise, by the respective switch-in income/debt oriented mutual fund schemes/plans.

C. Encumbrance of the scheme property

Fourth Schedule of Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 provides that the AMC shall not acquire any of the assets out of the scheme property which involves the assumption of any liability which is unlimited or which may result in encumbrance of the scheme property in any way. AMC's are advised to strictly adhere to the said provision.

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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