

Consultation Paper on utilization of intraday borrowing lines by Mutual Funds

1. Objective

The objective of this consultation paper is to solicit comments on the proposal to recognize intraday borrowing facilities utilized by Mutual Funds as a cash management tool, consider necessary safeguards and consistency in practices among Mutual Funds.

2. Background

- 2.1. Based on representation made by Association of Mutual Funds in India (AMFI) on intraday borrowing arrangement by mutual funds to bridge the timing gap between redemption payouts and receipt of guaranteed receivables due on the same day from Government of India (GoI), Reserve Bank of India (RBI) and Clearing Corporation of India Limited (CCIL), a carve out for intraday borrowings was enabled in SEBI (Mutual Funds) Regulations, 2026 which came into effect from April 1, 2026..
- 2.2. Certain safeguards and operational aspects on intraday borrowings were prescribed by way of circular dated March 13, 2026 such as having AMC and Trustee board approved policy, costs/ loss of borrowing, if any, to be borne by AMCs, segregation and ring-fencing of assets and liabilities, etc.
- 2.3. The aforesaid change was made to permit intraday borrowings for the specific purpose of meeting redemption/unitholder payouts based on guaranteed receivables as represented by AMFI.
- 2.4. Subsequently, due to operational challenges raised by AMFI/AMCs, the applicability of the guidelines related to intraday borrowing has been deferred till July 15, 2026.

3. Current practice of availing intraday borrowings – AMFI submission

- 3.1. AMFI in its revised representation has highlighted that intraday borrowings are availed by mutual funds from banks to meet the intraday liquidity requirement arising on

account of timing mismatch between outflows in a scheme (for example, pay-in obligations, meeting redemptions etc.) and receivables from different sources (for example, pay-out receivables, maturity receivables etc.). Intraday borrowing facilitates borrowing in the early hours of the day to enable mutual funds to meet their payout obligations and such borrowings are extinguished within the same day with the use of receivables of the scheme. Thus, intraday borrowing facility acts as a cash flow management tool for mutual funds.

3.2. The following table submitted by AMFI illustrates differences in settlement timings:

| | Scheme | Activity done on T Day | T+1 |
|---|---------------|--|---|
| 1 | Equity Scheme | Cash - Deployed in TREPS - 200 cr. | The funds are received in the evening, post 5 P.M |
| | | Equity Purchases - 400 cr. T+1 settlement | The pay-in has to be done by 10.AM in the morning |
| | | Equity Sales - 500 cr. T+1 Settlement | The funds are received in the evening, post 4 P.M |
| 2 | Debt Scheme | Cash - Deployed in TREPS - 200 cr. | The funds are received in the evening, post 5 P.M |
| | | Corporate Bond Primary purchase through EBP Purchases - 400 cr. T+1 settlement | The pay-in has to be done by 10.AM in the morning |
| | | Corporate Bond Secondary Sale - 500 cr. - clearing through NSCCL | The funds are received throughout the day |
| 3 | Hybrid Scheme | Cash - Deployed in TREPS - 200 cr. | The funds are received in the evening, post 5 P.M |
| | | Corporate Bond Primary purchase through EBP Purchases - 400 cr. T+1 settlement | The pay in has to be done by 10.AM in the morning |
| | | Equity Sales - 500 cr. T+1 Settlement | The funds are received in the evening, post 4 P.M |

3.3. The purposes for which intraday borrowing facility is availed by mutual fund schemes are stated to include:

- 3.3.1. Difference in pay-out/ pay-in settlement timing across various asset classes and various instruments within an asset class.
- 3.3.2. Redemptions being processed in early morning hours
- 3.3.3. Forex settlements, borrowing payments, MTM of derivative positions etc.

3.4. Thus, as submitted by AMFI, apart from meeting redemption payouts, intraday borrowing facility is also availed by AMCs for purposes such as trade settlements (pay-in obligations), forex settlements, derivative obligations, repayment of existing borrowings etc.

3.5. Further, the quantum of intraday borrowings are not necessarily limited to guaranteed receivables, i.e., from GoI, RBI, CCIL and other clearing corporations but can also exceed both guaranteed and non-guaranteed (inflows from maturity proceeds/ secondary market settlement from NCDs, CP/ CDs, OTC Swaps, etc.) receivables of the scheme. However, it is the responsibility of the AMCs that such intraday borrowings are paid by end of the day and any such borrowings converted to overnight borrowings shall be within statutory limits and for the purposes allowed in Regulation 42(1) of SEBI (Mutual Funds) Regulations, 2026. As per Regulation 42(1):

The mutual fund shall not borrow except to meet temporary liquidity needs for the purpose of repurchase or redemption of units or payment of interest or Income Distribution cum Capital Withdrawal payout to the unitholders or for settlement of trades by equity oriented index funds and equity oriented exchange traded funds on account of under execution of sell trades on the stock exchange in the manner as may be specified by the board from time to time. The borrowing specified above shall be subject to –

- (a) such borrowing not exceeding twenty per cent of the net assets of the scheme; and*
- (b) duration of such borrowing not exceeding a period of six months.*

3.6. Sample illustrations where intraday borrowings can exceed receivables is given in the table below:

| | | |
|------------------|---|--|
| Example 1 | Previous day scheme AUM = INR 100 cr. Receivables = NIL Redemptions payable = INR 30 cr. Intraday borrowings = INR 30 cr. | The fund would make redemptions early in the morning, however, it would ensure to sell atleast INR 10 cr. worth of securities on T+0 settlement in order to not exceed INR 20 cr. (20% of previous day scheme AUM) borrowings in line with regulatory limits |
| Example 2 | Previous day scheme AUM = 100 cr. Receivables = 10 cr. Trade Pay-in = 30 cr. Intraday borrowings = 30 cr. | The fund manager would sell atleast 20 cr. of securities in T+0 settlement in order pay off all intraday borrowings |

In both the examples above, though the intraday borrowings can exceed receivables of the scheme, however, by end of the day, the fund manager shall ensure that the same are extinguished or the intraday borrowings are converted into overnight borrowings. Such overnight borrowings, if any, shall not exceed the regulatory limits and shall be for the purposes allowed.

4. Proposal

4.1. In view of the above, it is gathered that the requirement of intraday borrowings arises due to timing mismatches in outflows by schemes vis-à-vis' receivables from different sources. Further, in case such intraday borrowings are not carried out by mutual funds, the same would lead to impact on fund management flexibility and returns of the scheme:

- 4.1.1. Since the pay-in has to be made before specific cut-off timings, the scheme receivables received later in the evening cannot be deployed effectively which may impact the returns of the scheme.
- 4.1.2. The fund manager's decision making would be impacted due to inability to make buy and sell trades during the same day.

4.2. Considering the need for intraday borrowing facility for cash flow management of mutual fund schemes and its impact on scheme returns, comments are sought on the following proposals:

4.2.1. AMCs may be allowed to avail intraday borrowings also for the purposes other than redemption/ unitholder payouts such as for the purposes mentioned at para 3.3 above. Further, the intraday borrowings can exceed receivables (both guaranteed or otherwise). However, it is the responsibility of the AMCs that such intraday borrowings are repaid by end of the day and any intraday borrowing converted to overnight borrowing shall be within regulatory limits and for the purposes allowed in SEBI (Mutual Funds) Regulations, 2026.

4.2.2. In line with existing regulatory guidelines, any charge or cost levied for availing intraday borrowings, if any, shall be borne by the AMCs.

Consultation No. 1:

Whether the intraday borrowings for purposes other than meeting redemption/ unitholder pay-outs may be allowed?

Consultation No. 2:

Whether the proposal to allow intraday borrowings being not limited to guaranteed receivables may be considered?

Consultation No. 3:

Whether the proposal to allow quantum of intraday borrowings in excess of receivables would be appropriate measure provided the AMC ensures that it meets the regulatory requirements for overnight borrowings (Refer illustration at Para 3.6)?

Consultation No. 4:

Any other suggestions on the proposal may be provided with rationale.

Public Comments on this Consultation Paper

1. Public comments are invited for the proposals as mentioned above. The comments/ suggestions should be submitted through the following link by **June 3, 2026**:

<https://www.sebi.gov.in/sebiweb/publiccommentv2/PublicCommentAction.do?doPublicComments=yes>

2. In case of any technical issue in submitting your comments through web based public comments form, you may contact the following through email with a subject "**Consultation Paper on utilization of intraday borrowing lines by Mutual Funds**":

a) Priyanka Mahapatra, General Manager (priyankam@sebi.gov.in)

b) Pranay Agrawal, Manager (pranaya@sebi.gov.in)

Issued on: May 13, 2026

.....
(End of Consultation Paper)