

## **SEBI CIRCULAR – BORROWING BY MUTUAL FUNDS**

**SEBI Circular No. HO/(92)2026-IMD-POD-2/I/6961/2026 dated March 13, 2026**

The Securities and Exchange Board of India (SEBI) issued this circular addressed to all Mutual Funds, Asset Management Companies (AMCs), Trustee Companies/Boards of Trustees of Mutual Funds, and the Association of Mutual Funds in India (AMFI).

The objective of the circular is to clarify the regulatory framework governing borrowing by mutual fund schemes, particularly in relation to intraday borrowing and borrowings by equity-oriented index funds and exchange traded funds (ETFs). These clarifications are aligned with the newly notified SEBI (Mutual Funds) Regulations, 2026, which will come into force from April 1, 2026.

### **Intraday Borrowings by Mutual Funds**

In practice, many mutual fund schemes—especially liquid and overnight schemes—face a timing mismatch between the outflow of funds and the receipt of inflows. Redemption payments to investors are generally processed in the morning of T+1 day, whereas maturity proceeds from instruments such as TREPS and reverse repo are typically received in the evening of the same day.

To manage this temporary mismatch, mutual funds commonly arrange intraday borrowing facilities from financial institutions such as banks. The SEBI (Mutual Funds) Regulations, 2026 recognize the need for such arrangements while also setting limits on borrowings.

Regulation 42(1) permits mutual funds to borrow funds for purposes such as repurchase or redemption of units, payment of interest or Income Distribution cum Capital Withdrawal (IDCW) to unitholders, and settlement of trades by equity-oriented index funds and ETFs when sell trades remain under-executed on stock exchanges. Under normal circumstances, such borrowings cannot exceed 20% of the net assets of a scheme and must not remain outstanding for more than six months.

However, Regulation 42(2) provides that the 20% borrowing limit will not apply to intraday borrowings, provided they comply with conditions specified by SEBI. Accordingly, SEBI has laid down the following framework for intraday borrowings effective April 1, 2026.

First, the policy governing the use of intraday borrowing facilities must be approved by both the Board of the AMC and the Board of Trustees. This policy must also be disclosed publicly by uploading it on the AMC's website.

Second, intraday borrowings may only be utilized for limited purposes, specifically for repurchase or redemption of units or for payment of interest or IDCW to unitholders.

Third, the amount of intraday borrowing must not exceed the value of guaranteed receivables expected to be received on the same day from entities such as the Government of India, the Reserve Bank of India, and the Clearing Corporation of India Limited. Eligible receivables include maturity proceeds from TREPS, proceeds from reverse repo transactions, maturity proceeds from government securities (G-Secs), treasury bills, State Development Loans (SDLs), and STRIPS, as well as interest receivable on government securities or sale proceeds from such securities.

Fourth, Asset Management Companies must ensure compliance with relevant provisions of the SEBI (Mutual Funds) Regulations, 2026, particularly clauses 6 and 7 of the Fourth Schedule, as well as the provisions contained in the SEBI Master Circular for Mutual Funds dated June 27, 2024.

Fifth, the cost of intraday borrowing, if any, must be borne by the AMC and not by the mutual fund scheme. Additionally, any loss or cost arising due to unforeseen events or delays in receiving receivables will also be borne by the AMC.

#### **Borrowing by Equity-Oriented Index Funds and ETFs**

The circular also clarifies borrowing provisions for equity-oriented index funds and ETFs in the context of the newly introduced Closing Auction Session in the equity cash segment of stock exchanges.

SEBI had earlier introduced this closing auction mechanism through a separate circular dated January 16, 2026, which will become effective from August 3, 2026. In light of this change, SEBI clarified that borrowings by equity-oriented index funds and ETFs due to under-execution of sell trades are permissible only for the purpose of participating in the Closing Auction Session.

This clarification ensures that such borrowings are strictly linked to operational requirements arising from the auction process and are not used for other purposes.

#### **Regulatory Authority and Objective**

The circular has been issued under the powers granted to SEBI under Section 11(1) of the SEBI Act, 1992, read with Regulation 77 of the SEBI (Mutual Funds) Regulations. The intent is to safeguard the interests of investors while ensuring orderly development and regulation of the securities market.

#### **Conclusion**

Overall, the circular provides greater clarity on the circumstances under which mutual funds may resort to borrowing. It formalizes the framework for intraday borrowings to address operational liquidity mismatches while ensuring that such facilities are used prudently and

transparently. At the same time, it introduces specific guidelines for equity-oriented index funds and ETFs in relation to stock exchange closing auctions.

Through these measures, SEBI seeks to strike a balance between operational flexibility for mutual funds and the protection of investor interests.