

CIRCULAR

HO/(92)2026-IMD-POD-2/I/6961/2026

March 13, 2026

**All Mutual Funds/
All Asset Management Companies (AMCs)/
All Trustee Companies/ Board of Trustees of Mutual Funds/
Association of Mutual Funds in India (AMFI)/**

Sir / Madam,

Subject: Borrowing by Mutual Funds

A. Intraday Borrowings

1. As per prevalent industry practice, primarily for liquid and overnight schemes, the redemption payouts to the investors are processed in the morning hours of T+1 day whereas the mutual fund schemes receive the maturity proceeds from TREPS and reverse repo in the evening hours of T+1 day. In order to bridge the intraday timing mismatch of inflow and outflow of funds, the mutual funds enter into formal intraday borrowing arrangements with financial institution such as banks.
2. SEBI has notified SEBI (Mutual Funds) Regulations, 2026 vide notification no. LAD-NRO/GN/2026/294 dated January 14, 2026 to come into force from April 01, 2026. Regulation 42(1) of SEBI (Mutual Funds) Regulations, 2026 permits mutual funds to borrow funds 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 (ETFs) on account of under execution of sell trades on the stock exchange. Such borrowings shall not exceed 20% of net assets of a scheme and duration of such borrowings shall not exceed a period of 6 months.
3. In terms of Regulation 42 (2) of SEBI (Mutual Funds) Regulations, 2026, the limit of 20% is not applicable for intraday borrowings subject to such conditions as may be specified by the Board.

4. Accordingly, it has been decided that **with effect from April 01, 2026**, the following conditions shall be applicable for intraday borrowings by mutual funds:
 - 4.1. The policy for use of intraday borrowing facility shall be approved by Board of AMC and Board of Trustees and shall be uploaded on the website of AMC.
 - 4.2. Intraday borrowings shall be used only for the purpose of repurchase or redemption of units or payment of interest or Income Distribution cum Capital Withdrawal payout to the unitholders.
 - 4.3. The amount of intraday borrowings shall not exceed the guaranteed receivables due on the same day from Government of India, Reserve Bank of India and Clearing Corporation of India Limited. The following receivables on the day of redemption shall be eligible for intraday borrowings:
 - 4.3.1. Maturity proceeds from TREPS
 - 4.3.2. Proceeds from Reverse Repo
 - 4.3.3. Maturity proceeds from G-Sec/ T-bill/ SDL/ STRIPS
 - 4.3.4. Interest on G-Sec/ SDL
 - 4.3.5. Sale proceeds of G-Sec/ T-bill/ SDL/ STRIPS
 - 4.4. AMCs shall ensure compliance of clauses 6 and 7 of Fourth Schedule of SEBI (Mutual Funds) Regulations, 2026 and para 16.8 of SEBI Master Circular for Mutual Funds dated June 27, 2024.
 - 4.5. In line with para 10.9 of SEBI Master Circular for Mutual Funds dated June 27, 2024, cost of intraday borrowing, if any, shall be borne by the AMC. Further, any loss or cost incurred, on account of any unforeseen event or delay in receiving the funds from receivables as mentioned at para 4.3 shall be borne by the AMC.

B. Borrowing by equity-oriented index funds and equity-oriented ETFs

5. SEBI has introduced Closing Auction Session in the equity cash segment of the Stock Exchanges vide circular reference no. HO/47/11/11(3)2025-MRD-POD2/I/2765/2026 dated January 16, 2026, effective from August 03, 2026.
6. It is clarified that borrowings by equity-oriented index funds and equity-oriented ETFs on account of under execution of sell trades on the Stock Exchange in terms of Regulation 42(1) of SEBI (Mutual Funds) Regulations, 2026 is permissible only for the purpose of participation by such funds in the Closing Auction Session in

the equity cash segment of the Stock Exchanges **with effect from the date of applicability of the aforesaid SEBI circular dated January 16, 2026** and in the manner specified therein.

7. 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 interest of investors in securities and to promote the development of, and to regulate the securities market.
8. This Circular is available at www.sebi.gov.in under the link "Legal > Circulars".

Yours sincerely,

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