

Draft Circular for Public Comments

**Change in cut-off timings to determine applicable NAV with respect to
repurchase/ redemption of units in overnight schemes of Mutual Funds**

Background

1. With a view to safeguard clients' funds placed with Stock Brokers (SBs) / Clearing Members (CMs), SEBI vide Circular "Upstreaming of clients' funds by Stock Brokers (SBs)/ Clearing Members (CMs) to Clearing Corporations (CCs)" dated December 12, 2023 ("upstreaming circular") has specified the framework requiring SB/CMs to upstream (i.e. place with) all the clients' clear credit balances to CCs on End of Day basis. The clients' funds shall all be upstreamed by SB/ CMs to CCs only in the form of either cash, lien on Fixed Deposit Receipts created out of clients' funds, or pledge of units of Mutual Fund Overnight Schemes (MFOS) created out of clients' funds.
2. Investment in MFOS, which is a new avenue made available to SBs/ CMs to deploy client funds, ensures minimal risk transformation of client funds (that are withdrawable on demand) available with SBs/ CMs because of overnight tenure and exposure to only risk - free government securities. SBs/CMs shall ensure that client funds are invested only in such MFOS that deploy funds into risk-free government bond overnight repo markets and overnight Tri-party Repo Dealing and Settlement (TREPS). Further, such MFOS units are required to be in dematerialized (demat) form, and must necessarily be pledged with a Clearing Corporation at all times.
3. To operationalize the above, a Working Group of industry participants, AMFI and members of the Mutual Funds Advisory Committee (MFAC) has recommended a change in cut-off timings to determine applicable NAV with respect to repurchase (redemption) of units in overnight fund schemes from existing 3:00 PM to 7:00 PM. The change is proposed in order to allow time to SBs/CMs to un-pledge units of MFOS and place redemption request with Mutual Funds, after the close of market hours.

4. The overnight schemes receive money invested in securities with 1 day maturity on next working day. For meeting redemption requests, the overnight schemes don't have to make any sale transaction before market hours. Instead the overnight schemes, based on redemption requests, may decide not to reinvest the maturity proceeds to be received on T+1 settlement date. Since the money has to be invested every day, for the amount of redemption requests received on T-day, such amount is not-reinvested on T+1 day and instead is used for payouts. Due to this, the timeline of redemption, whether being 3 PM or 7 PM shall not impact the funds valuation or capability to redeem investments.

Public Comments:

Draft Circular on "Change in cut-off timings to determine applicable NAV with respect to repurchase of units in overnight schemes of Mutual Fund" is placed at **Annexure**

A. Public comments are invited on the Draft Circular.

The comments/ suggestions should be submitted latest by **February 10, 2025**, through the following link:

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

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 "Public comments on draft circular - Change in cut-off timings to determine applicable NAV with respect to repurchase of units in overnight schemes of Mutual Fund":

- a. Mr. Lakshaya Chawla, DGM (lakshayac@sebi.gov.in)
- b. Mr. Pranay Agrawal, AM (pranaya@sebi.gov.in)

Issued on: January 20, 2025

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Annexure A**Draft CIRCULAR**

SEBI/HO/IMD/PoD2/P/CIR/2025/____

February XX, 2025

**Asset Management Companies (AMCs)/
Trustee Companies/ Board of Trustees of Mutual Funds/
Association of Mutual Funds in India (AMFI)/
Registrar Transfer Agents (RTAs)**

Sir / Madam,

**Subject: Change in cut-off timings to determine applicable NAV with respect to
repurchase of units in overnight schemes of Mutual Fund**

1. With a view to safeguard clients' funds placed with Stock Brokers (SBs) / Clearing Members (CMs), SEBI vide circular "Upstreaming of clients' funds by Stock Brokers (SBs)/ Clearing Members (CMs) to Clearing Corporations (CCs)" dated December 12, 2023 ("upstreaming circular") has specified the framework requiring SB/CMs to upstream (i.e. place with) all the clients' clear credit balances to CCs on End of Day basis. The clients' funds shall all be upstreamed by SB/ CMs to CCs only in the form of either cash, lien on Fixed Deposit Receipts created out of clients' funds, or pledge of units of Mutual Fund Overnight Schemes (MFOS) created out of clients' funds.
2. Investment in MFOS, which is a new avenue made available to SBs/ CMs to deploy client funds, shall ensure minimal risk transformation of client funds (that are withdrawable on demand) available with SBs/ CMs because of overnight tenure and exposure to only risk - free government securities. As per the upstreaming circular, SBs/CMs shall ensure that client funds are invested only in such MFOS that deploy funds into risk-free government bond overnight repo markets and overnight Tri-party Repo Dealing and Settlement (TREPS). To operationalize the above, a Working Group of industry participants, AMFI and

members of the Mutual Funds Advisory Committee (MFAC) has recommended a change in cut-off timings to determine applicable NAV with respect to repurchase of units in overnight fund schemes.

3. Accordingly, it has been decided that para 8.4.5.4 of the Master Circular for Mutual Funds dated June 27, 2024 shall stand modified as under:

“The following Cut-off Timings shall be observed by AMCs with respect to repurchase of units in liquid fund & overnight fund schemes and plans and the following NAVs shall be applied for such repurchase:

- a. Where the application is received up to **3.00 pm for liquid fund and 7.00 pm for overnight fund** – the closing NAV of day immediately preceding the next business day; and*
- b. Where the application is received after **3.00 pm for liquid fund and 7.00 pm for overnight fund** – the closing NAV of the next business day.”*

4. The provisions of this circular shall come into force from **March XX, 2025**.
5. 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 49 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.
6. This Circular is available at www.sebi.gov.in under the link “Legal > Circulars”.

Yours faithfully,