भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

Consultation Paper on proposal to permit net settlement of funds for transactions undertaken by mutual fund schemes in cash market

A. Objective

1. The objective of this consultation paper is to seek comments, views and suggestions from the public and stakeholders on the proposal to permit net settlement of funds for transactions undertaken by mutual fund schemes in cash market, while continuing settlement of securities on gross basis.
2. The proposal is intended to facilitate ease of doing business, improve settlement efficiency and reduce temporary liquidity requirements for mutual fund schemes, while ensuring that existing safeguards relating to delivery-based settlement, scheme-wise accounting, valuation and investor protection remain unaffected.

B. Background and current regulatory guidelines

3. SEBI Master Circular for Stock Exchanges and Clearing Corporations dated December 30, 2024, *inter-alia*, provides that no institutional investor shall be allowed to do day trading, i.e. square off transactions intra-day. All transactions are grossed at custodians' level and investors are required to fulfil their obligations on a gross basis. Consequently, institutional trades in the cash market are required to be backed by delivery.
4. On April 24, 2026, SEBI issued a circular permitting net settlement of funds for outright transactions undertaken by Foreign Portfolio Investors ("FPIs") in the cash market. Under the framework, transactions in securities with only outright transactions (i.e. either a purchase or a sale transaction, but not both, in a security in a settlement cycle) are eligible for netting to arrive at net fund obligation, while securities settlement continues on a gross basis. Transactions involving both purchase and sale in the same security in the same settlement cycle are excluded from netting and continue to be settled on a gross basis. It was clarified that STT and stamp duty would continue to apply on delivery basis, and the implementation deadline was specified as December 31, 2026.
5. Mutual fund schemes are significant participants in the cash market. Under the SEBI (Mutual Funds) Regulations, 2026 ("the Regulations") they are required, in case of purchases, to take delivery of relevant securities and, in case of sales, to deliver the

securities, except where otherwise permitted under the framework relating to short selling, securities lending and borrowing, derivatives, or other applicable regulatory provisions.

6. The Regulations also mandate the assets and liabilities of each scheme to be segregated and ring-fenced from other schemes of the mutual fund.
7. The Regulations also provide the following:
   7.1. mutual fund schemes shall maintain proper books and records on a scheme-wise basis;
   7.2. NAV shall be computed daily for each scheme; and
   7.3. Borrowing by mutual funds schemes is allowed only in limited circumstances, subject to specified conditions.
8. Accordingly, any proposal for net settlement of funds for mutual fund schemes should be framed in a manner such that it does not:
   8.1. Permit trade netting or delivery netting;
   8.2. Dilute the delivery-backed framework;
   8.3. Permit inter-scheme adjustments; and
   8.4. Conflict with scheme-wise accounting, valuation or borrowing norms.

C. Existing settlement framework for mutual fund schemes

9. Under the extant framework, mutual fund schemes undertaking transactions in the cash market are required to follow a delivery-based settlement discipline. Further, institutional transactions are grossed at custodian level and obligations are required to be fulfilled on a gross basis.
10. Accordingly, under the current framework, a mutual fund scheme is required to arrange funds for purchase transactions independently of sale proceeds receivable in the same settlement cycle, even where the same scheme has offsetting outright purchase and outright sale transactions.
11. As a result, even where the net cash obligation of the scheme is limited, the existing framework leads to temporary gross funding requirements at the scheme level, resulting in liquidity pressures, operational inefficiencies and reliance on short-term funding arrangements for settlement.

D. Rationale underlying the existing gross settlement framework

12. The gross settlement framework for institutional investors in the cash market is intended to preserve the discipline of delivery based settlement and to prevent intra-day squaring off or day trading by institutional participants.
13. Under this framework, purchase transactions are funded separately and sale transactions are backed separately by securities. This reduces the dependence of one transaction on another and limits the possibility of speculative or non-delivery-based trading activity.
14. The framework also supports orderly functioning of the clearing and settlement ecosystem by ensuring that settlement obligations are met independently and are not contingent on the completion of other transactions within the same settlement cycle.

E. Need for review

15. SEBI has received representations from market participants that mutual fund schemes may face temporary liquidity requirements and operational inefficiencies because fund obligations in the cash market are effectively met on a gross basis at scheme level. These issues may become more pronounced during index rebalancing which requires portfolio changes in passive funds and large investor subscriptions or redemptions.
16. In such cases, where a scheme has outright purchase obligations in some securities and outright sale receivables in others within the same settlement cycle, gross funding can result in avoidable liquidity deployment, despite the scheme having offsetting cash flows within the same cycle.
17. Since SEBI has already allowed net settlement of funds framework for FPIs, similarly, a suitably tailored framework is proposed to be introduced for mutual funds, subject to safeguards, preserving delivery-backed settlement, scheme-wise accounting, preservation of unit-holder interests and compliance with borrowing and investment restrictions.
18. Further, during deliberations for allowing intraday borrowing for mutual funds, Mutual Fund Advisory Committee (MFAC) recommended that net settlement for domestic institutional investors be allowed in line with that allowed for FPIs.

19. The proposed framework may also reduce the extent of intraday borrowing availed by mutual fund schemes for settlement purposes.

F. Risk and mitigating safeguards

20. In the proposed framework, the key operational and settlement related processes will largely remain same as in existing framework.
21. The key considerations relate to possible dependence of purchase confirmation on sale confirmation, limited increase in custodian-level settlement risk due to timing gaps, and the need to preserve scheme-wise integrity. These risks are mitigated by restricting the framework to outright transactions only, keeping the downstream settlement framework unchanged, continuing settlement of securities on a gross / delivery basis, applying existing borrowing provisions for residual funding needs, and prohibiting any cross-scheme or cross-portfolio adjustment of obligations.

G. Proposals

22. **Proposal 1: Permitting net settlement of funds for outright transactions undertaken by mutual fund schemes in cash market**

22.1. It is proposed to permit net settlement of funds for outright buy or sell transaction undertaken by a mutual fund scheme in the cash market executed on recognised stock exchange.

22.2. For this purpose, "outright transaction" would mean either a purchase or a sale transaction, but not both, in a security in a settlement cycle undertaken by a mutual fund scheme.

22.3. Transactions in securities with only outright purchase or only outright sale in a settlement cycle may be netted to arrive at the net fund obligation of the concerned mutual fund scheme.

22.4. Transactions in securities having both purchase and sale transactions in the same settlement cycle shall be excluded from netting and shall continue to be settled on gross basis.

22.5. Settlement of securities shall continue to be carried out on gross basis.

22.6. STT and stamp duty shall continue to be levied on delivery basis, as applicable.

23. **Proposal 2: Scheme-level netting only**

23.1. It is proposed that net settlement of funds shall be allowed only at the level of an individual mutual fund scheme.

23.2. No netting shall be permitted across different schemes of the same mutual fund;

23.3. The AMC and custodian shall ensure that the proposed framework does not affect scheme-wise accounting, valuation, daily NAV computation, segregation of securities and funds; or unit-holder interest.

24. Proposal 3: Treatment of residual obligations

24.1. In case the value of outright sale transactions is less than the value of outright purchase transactions, the residual amount in respect of such outright purchase transactions, together with purchase obligations arising from non-outright transactions, shall be funded by the concerned mutual fund scheme.

24.2. In case the value of outright sale transactions exceeds the value of outright purchase transactions, such excess outright sale amount shall not be adjusted against purchase obligations arising from non-outright transactions.

24.3. Any external funding arrangement, if availed for balance payment obligation, shall continue to comply with applicable provisions related to borrowing by mutual funds.

25. Proposal 4: Operational standards

25.1. It is proposed that implementation standards may be formulated by AMFI, in consultation with custodians, recognised Clearing Corporations, recognised Stock Exchanges and other relevant stakeholders. The implementation standards may cover:

25.1.1. Treatment of partially confirmed / rejected trades;

25.1.2. File formats and reporting;

25.1.3. Reconciliation process;

25.1.4. Exception handling;

25.1.5. Audit trail requirements; and

25.1.6. Scheme-wise controls.

H. Proposals for Public comments

Public comments are invited on the following proposals:

26. **Consultation 1**: Whether net settlement of funds should be permitted for outright transactions undertaken by mutual fund schemes in the cash market executed on recognised stock exchange, while continuing settlement of securities on a gross basis?

27. **Consultation 2:** Whether transactions involving both purchase and sale in the same security in the same settlement cycle should continue to be excluded from netting?

28. **Consultation 3:** Whether the proposed framework should initially be limited to transactions undertaken by mutual fund schemes in the cash market only?

29. **Consultation 4:** Any other suggestions with rationale?

I. Public comments

30. Considering the implications of the aforementioned matter on the market participants, public comments are invited on the above-detailed proposals. The Draft Circular in this regard is placed at **Annexure A**.
31. The comments/ suggestions should be submitted latest by September 24, 2026, through the online web-based form which can be accessed using the link - Click Here
32. Kindly go through the instructions mentioned on the above link before submitting comments on the consultation paper.
33. In case of any technical issue in submitting your comment through web based public comments form, you may send an email to priyankam@sebi.gov.in and digantr@sebi.gov.in with the subject *"Consultation Paper on proposal to permit net settlement of funds for transactions undertaken by mutual fund schemes in cash market".*

Issued on: September 03, 2026

Annexure A

DRAFT CIRCULAR

XX XXXX, 2026

To,

All Mutual Funds

All Asset Management Companies

All Trustees / Trustee Companies

All Registered Custodians

All Recognised Clearing Corporations

All Recognised Stock Exchanges

All Registered Stock Brokers through Recognised Stock Exchanges

Dear Sir / Madam,

Subject: Framework for net settlement of funds for transactions undertaken by mutual fund schemes in cash market

1. **Background**

1.1. SEBI Master Circular for Stock Exchanges and Clearing Corporations dated December 30, 2024, *inter-alia*, stipulates that no institutional investor shall be allowed to do day trading, i.e., square off their transactions intra-day. Accordingly, transactions undertaken by institutional investors in the cash market are required to be delivery-backed and settled on gross basis at the custodian/client level.

1.2. SEBI, vide Circular dated April 24, 2026, permitted net settlement of funds for outright transactions undertaken by Foreign Portfolio Investors in the cash market, while retaining gross settlement of securities.

2. **Need for net settlement for mutual funds**

2.1. Representations have been received from market participants that mutual fund schemes also face additional liquidity requirements and operational inefficiencies on account of gross settlement of fund obligations in the cash market.

2.2. Such liquidity requirements may be significant particularly on days involving index rebalancing which requires portfolio changes in passive funds and large investor subscriptions or redemptions.

2.3. With a view to enhancing operational efficiency, reducing temporary funding requirements and improving settlement efficiency for mutual fund schemes, it has been decided to permit net settlement of funds for outright transactions undertaken by mutual fund schemes in the cash market.

3. Definition of outright transaction

3.1. For the purpose of this circular, "outright transaction" shall mean either a purchase transaction or a sale transaction, but not both, in a security in a settlement cycle undertaken by a mutual fund scheme.

3.2. For avoidance of doubt, if a mutual fund scheme has both purchase and sale transactions in the same security in the same settlement cycle, such security shall be treated as non-outright for that settlement cycle.

4. Framework for net settlement of funds

4.1. Net settlement of funds shall be permitted only for outright transactions undertaken by a mutual fund scheme in the cash market.

4.2. Transactions in securities with only outright purchase or only outright sale in a settlement cycle may be considered for arriving at the net fund obligation of the concerned mutual fund scheme.

4.3. Transactions in securities having both purchase and sale transactions in the same settlement cycle shall be excluded from netting.

4.4. Such non-outright transactions shall continue to be settled on gross basis as per the extant procedure.

4.5. Netting shall be undertaken only for the purpose of fund settlement. Settlement of securities shall continue to be carried out on gross basis.

5. Scheme-level netting

5.1. Netting of funds shall be permitted only at the level of an individual mutual fund scheme.

5.2. No netting shall be permitted across different schemes of the same mutual fund or AMC.

5.3. No adjustment of obligations shall be permitted between two or more schemes or portfolios.

5.4. The AMC, mutual fund and custodian shall ensure that the netting mechanism does not affect scheme-wise accounting, NAV computation, asset allocation, investment limits or unit-holder interest.

6. Treatment of residual obligations

6.1. In case the value of outright sale transactions is less than the value of outright purchase transactions, the residual fund obligation shall be funded by the concerned mutual fund scheme.

6.2. In case the value of outright sale transactions exceeds the value of outright purchase transactions, such excess outright sale proceeds shall not be adjusted against non-outright purchase obligations.

6.3. Non-outright purchase obligations shall continue to be funded separately on gross basis.

7. Securities settlement, STT and stamp duty

7.1. Settlement of securities shall continue to be carried out on gross basis between the mutual fund scheme and the custodian.

7.2. Securities Transaction Tax and stamp duty shall continue to be charged on delivery basis, as applicable.

7.3. The proposed netting shall not alter the delivery-backed nature of institutional trades in the cash market.

8. Operational safeguards

8.1. AMCs, mutual funds and custodians shall ensure that adequate systems and controls are put in place for scheme-wise identification of:

8.1.1. outright purchase transactions;

8.1.2. outright sale transactions;

8.1.3. non-outright transactions;

8.1.4. gross fund obligations;

8.1.5. net fund obligations; and

8.1.6. Securities pay-in and pay-out obligations.

8.2. The custodian shall maintain a clear audit trail of gross obligations, netted fund obligations and excluded non-outright transactions.

8.3. The AMC and custodian shall ensure that no cross-scheme adjustment or inter-scheme funding takes place under this framework.

8.4. Trustees shall review the implementation of this framework and ensure that the same is in the interest of unit-holders.

9. Role of recognised Clearing Corporations and Stock Exchanges

9.1. Recognised Clearing Corporations and recognised Stock Exchanges shall make necessary changes in their systems, processes, files and reporting formats to facilitate the implementation of this framework.

9.2. The manner of settlement between custodians and Clearing Corporations shall remain unchanged.

9.3. Clearing Corporations shall continue to settle obligations at the clearing member/custodian level in accordance with the extant settlement framework.

10. Implementation standards

10.1. Implementation standards for this framework shall be formulated by AMFI in consultation with Custodians and recognised Clearing Corporations, recognised Stock Exchanges and other relevant stakeholders.

10.2. The implementation standards shall, *inter-alia*, specify:

10.2.1. file formats and reporting requirements;

10.2.2. timelines for confirmation and settlement;

10.2.3. reconciliation mechanism;

10.2.4. audit trail requirements;

10.2.5. treatment of rejected or unconfirmed trades; and

10.2.6. Exceptions handling process.

11. System readiness

11.1. Mutual funds, AMCs, custodians, stock brokers, recognised Stock Exchanges and recognised Clearing Corporations are advised to make necessary changes in their systems and processes to give effect to the provisions of this circular.

11.2. AMCs and custodians shall jointly confirm system readiness before implementation.

12. Applicability

12.1. The provisions of this circular shall be applicable to transactions undertaken by mutual fund schemes in the cash market executed on recognised stock exchange.

13. Implementation timeline

13.1. The provisions of this circular shall be implemented on or before DD/MMM/YYYY.

13.2. Recognised Stock Exchanges and Clearing Corporations shall issue necessary operational guidelines within 30 days from the date of issuance of implementation standards.

14. Modification to existing provisions

14.1. Accordingly, the provisions stated at Para 4 of Annexure 3 of Chapter 1 (Trading) of SEBI's Master Circular for Stock Exchanges and Clearing Corporations dated December 30, 2024, shall stand modified to the extent specified in this circular.

14.2. All other provisions relating to institutional investors, delivery-backed settlement, short selling, margining and settlement shall continue to apply.

14.3. 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 Regulation 84 of the SEBI

(Mutual Funds) Regulations, 2026, to protect the interest of investors in securities and to promote the development of, and to regulate, the securities market.

14.4. This circular is available on SEBI website at www.sebi.gov.in under the category *"Legal — Circulars"*.

Illustration of obligations of mutual fund scheme under current practice and proposed mechanism

1. Consider a mutual fund scheme which, on a particular day, has undertaken the following trades in the cash market:

SECURITY	BUY VALUE (₹)	SELL VALUE (₹)	TREATMENT
A	1,000	Nil	Outright purchase
B	1,000	2,000	Non-outright
C	Nil	2,000	Outright sale

2. **Current practice — gross settlement**: Under the current practice, all fund obligations of the mutual fund scheme are settled on gross basis with the custodian.

PARTICULARS	PAY-IN (₹)	PAY-OUT (₹)
Funds	2,000	4,000

3. **Proposed mechanism — net settlement of funds:** Under the proposed mechanism,

   3.1. Security A is an outright purchase.

   3.2. Security C is an outright sale.

   3.3. Security B has both buy and sell transactions and shall be excluded from netting.

   3.4. Outright purchase in A and outright sale in C may be netted for fund settlement.

   3.5. Security settlement shall continue on gross basis.

PARTICULARS	PAY-IN ₹	PAY-OUT ₹
Funds	1,000	3,000

4. The Mutual Fund scheme's funding requirement is reduced to the extent of netting permitted for outright transactions. However, obligations relating to Security B continue to be settled on gross basis as it is a non-outright transaction.