EXECUTIVE DIRECTOR
INVESTMENT MANAGEMENT DEPARTMENT

SEBI/IMD/CIR No.10/ 77780 /06
September 28, 2006

All Mutual Funds Registered with SEBI
Association of Mutual Funds in India (AMFI)

Dear Sirs,

Re.: <u>Uniform cut-off timings for applicability of Net Asset Value (NAV) of Mutual Fund scheme(s)/plan(s).</u>

1. Please refer to SEBI Circulars SEBI/ IMD/CIR No. 8/5611/ 2004 dated March 19, 2004 and SEBI/ IMD/CIR No. 9/6016/2004 dated March 25, 2004 on the captioned subject. AMFI has approached SEBI seeking some modifications to the aforesaid circulars. The proposal of AMFI was considered and accordingly the following guidelines are being issued:

2. Definitions

(1) In these Guidelines, unless the context otherwise requires:

a. 'Act' means the Securities and Exchange Board of India Act, 1992;
b. 'Board' means the Securities and Exchange Board of India;
c. 'cut-off timing', in relation to an investor making an application to a mutual fund for purchase or sale of units, shall mean the outer limits of timings within a particular day which are relevant for determination of the NAV that is to be applied for his transaction;
d. 'international scheme' means a scheme of a mutual fund which has substantial investments in foreign securities that are valued as per time zones other than Indian standard time zone;
e. 'liquid fund schemes and plans' shall mean the schemes and plans of a mutual fund which have the characteristics mentioned in Schedule I;
f. 'regulations' mean the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996;

(2) Words and expressions used and not defined in these Guidelines shall have the meanings, if any, respectively assigned to them in the Act or in the regulations, unless the context otherwise requires.

3 Applicability

(1) These Guidelines shall be applicable all to schemes and plans of mutual funds except international schemes.

(2) These Guidelines shall not apply to transactions in mutual fund units which are undertaken on a recognised stock exchange.

4. **Fixation of uniform cut-off timings**

(1) Every mutual fund shall reckon the cut-off timings for its schemes and plans in compliance with these Guidelines and such cut-off timings shall be uniformly implemented for all its investors.
(2) Every mutual fund shall ensure that each payment instrument for subscription or purchase of units is deposited by it in the bank with utmost expedition prudently utilizing the appropriate banking facility, so as to comply with sub-paragraph (1).
(3) Any loss occasioned to any investor or to the scheme or plan on account of non-compliance with sub-paragraph (2) shall be made good by the asset management company.

5. **Cut-off timings for liquid fund schemes and plans**

(1) The following cut-off timings shall be observed by a mutual fund in respect of purchase of units in liquid fund schemes and their plans, and the following NAVs shall be applied for such purchase:

a. where the application is received upto 12.00 noon on a day and funds are available for utilization on the same day – the closing NAV of the day immediately preceding the day of application;

b. where the application is received after 12.00 noon on a day and funds are available for utilization on the same day – the closing NAV of the day immediately preceding the next business day after the day of application; and

c. irrespective of the time of receipt of application, where the funds are not available for utilization on the day of the application – the closing NAV of the day immediately preceding the day on which the funds are available for utilization.

(2) The following cut-off timings shall be observed by a mutual fund in respect of repurchase of units in liquid fund schemes and their plans, and the following NAVs shall be applied for such repurchase:

a. where the application is received upto 3.00 pm – the closing NAV of the business day immediately preceding the next business day after the day of application; and

b. where the application is received after 3.00 pm – the closing NAV of the next business day after the day of application.

(3) A mutual fund shall calculate NAV for each calendar day in respect of its liquid fund schemes and their plans.

Explanation: ‘Business day’ does not include a day on which the money markets are closed or otherwise not accessible.

6. **Cut-off timings for other schemes and plans**

(1) A mutual fund shall reckon only prospective NAV in accordance with this clause, in respect of all their schemes and plans other than liquid fund schemes and plans.

(2) The following cut-off timings shall be observed by a mutual fund in respect of purchase of units in its other schemes and their plans, and the following NAVs shall be applied for such purchase:

a. where the application is received upto 3.00 pm with a local cheque or demand draft payable at par at the place where it is received – closing NAV of the day of application;
b. where the application is received after 3.00 pm with a local cheque or demand draft payable at par at the place where it is received – closing NAV of the next business day after the day of application; and
c. where the application is received with an outstation cheque or demand draft which is not payable on par at the place where it is received – closing NAV of day on which the cheque or demand draft is credited.

(3) The following cut-off timings shall be observed by a mutual fund in respect of repurchase of units in its other schemes and their plans, and the following NAVs shall be applied for such repurchase:

a. where the application received upto 3.00 pm – closing NAV of the day of application; and

b. an application received after 3.00 pm – closing NAV of the next business day after the day of application.

7. **Switch and sweep transactions**

1) Clauses 5 and 6 shall apply to ‘switch in’ transactions as if they were purchase transactions and to ‘switch out’ transactions as if they were repurchase transactions.

2) In case of ‘switch’ transactions from one scheme to another the allocation shall be in line with redemption payouts.
3) Clauses 5 and 6 shall apply to ‘sweep’ transactions as if they were purchase transactions and to ‘reverse sweep’ transactions as if they were repurchase transactions.

8. **Time stamping**

1) Every mutual fund shall disclose the location of its official points of acceptance in its offer documents and websites and shall receive the applications made by investors only at such official points.
2) Clauses 5 and 6 shall apply with reference to the point of time at which the applications are received at such official points of acceptance.
3) All official points of acceptance shall have time stamping machines which are in compliance with the requirements mentioned in Schedule II.

9. **Compliance reporting and disclosures**

1) The status of compliance with these Guidelines shall be reported to the Board in all the quarterly compliance reports of the asset management company and the half-yearly trustee reports.
2) The trustees’ report shall contain a declaration on whether the trustees are satisfied with the systems and procedures of the mutual fund designed for the purpose of compliance with these Guidelines.
3) The substance of these Guidelines shall be disclosed to investors in the offer document or in any addendum thereto.

10. SEBI Circulars SEBI/ IMD/CIR No. 8/5611/ 2004 dated March 19, 2004 and SEBI/ IMD/CIR No. 9/6016/2004 dated March 25, 2004 stand withdrawn.

11. These guidelines are 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 interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

R. K. Nair

Encl: a/a

Schedule I
Liquid fund schemes and plans
[clause 2(1)(e)]

1. 'Liquid fund schemes and plans' are such schemes and plans of mutual funds that have the following characteristics with regard to their portfolio:

   A. the mark-to-market component of the fund on a weekly average basis is less than 10%;

   B. the repricing tenor is not more than 1 year, reckoned as under –

      (i) for a fixed rate asset, the remaining tenor is 1 year or less;
      (ii) for a floating rate asset, the interest reset frequency is 1 year or less;
      (iii) for a fixed rate or floating rate asset where the principal is paid in a staggered and/or on amortizing basis (e.g. securitized papers), the average maturity of such an asset is 1 year or less;
      (iv) for a portfolio using interest rate swaps,

         a. the composite floating rate asset (underlying fixed rate asset and interest rate swap, paying fixed and receiving floating) has interest reset frequency upto 1 year;
         b. if interest rate swaps (receiving fixed and paying floating), have been used to convert a floating rate asset into a fixed rate asset, the fixed leg of the interest rate swap having remaining tenor upto 1 year;

      (v) for a portfolio using forward rate agreements, the summation of the beginning and end dates of the period covered is 1 year or less;

   and

   C. if there are positions in interest rate futures and bond futures, the repricing risk is 1 year or less

2. For the purpose of sub-clause (a) of clause 1, mark to market shall mean the valuation of an asset (e.g. marketable securities, derivatives and other financial contracts) using a traded price or a derived price from the corresponding yield curve.

3. The above requirements shall be disclosed in the offer document and shall form part of the investment allocation pattern. Any deviation from these requirements shall be viewed as violation of investment restrictions

Schedule II
Requirements in respect of time stamping machines
[clause 8(3)]

1. For every machine, running serial number shall be stamped from the first number to the last number as per its capacity before repetition of the cycle.

2. Every application for purchase shall be stamped on the face and the corresponding payment instrument shall be stamped on the back indicating the date and time of receipt and running serial number. The application and the payment instrument shall contain the same serial number.

3. Every application for redemption shall be stamped on the face threof and on the investor's acknowledgment copy (or twice on the application if no acknowledgment is issued), indicating the date and time of receipt and running serial number.

4. Different applications shall not be bunched with same serial number.

5. Blank papers shall not be time-stamped. Genuine errors, if any, shall be recorded with reasons.

6. The time-stamping machine shall have a tamper proof seal and the ability to open the seal for maintenance or repairs must be limited to vendors or nominated persons, to be entered in a proper record.

7. Breakage of seal or breakdown of the time-stamping machine shall be duly recorded and reported to the Trustees.

8. Every effort should be made to ensure uninterrupted functioning of the time-stamping machine. In case of breakdown, an alternative method of time stamping applications shall be developed by the mutual fund, subject to the approval of the Board of the asset management company and the trustees. The alternative method shall contain an audit trail.

9. Any mode of application that does not have any physical or electronic trace shall be converted into a physical piece of information and time-stamped.

10. The applications, duly time-stamped as above shall be maintained by the mutual funds at least for the minimum period mentioned in regulation 50(2) of the Regulations and shall be open to inspection by the Board or the auditors appointed by the Board.

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