



Association of Mutual Funds in India

C-701 Naman Corporate Link, Plot Nos. C-31 / C-32, G Block, Bandra Kurla Complex, Bandra – East, Mumbai – 400 051

135/ BP/93b/ 2023-24

June 15, 2023

To,
All AMFI Members

Dear Members,

AMFI Best Practices Guidelines Circular No.93 b / 2023-24

Changes to Table 2 of Annexure 1 of AMFI Best Practices Guidelines Circular No.93 dated 24-Jul-2021 on Prudential norms for LRM for Open-ended Debt Schemes

Pursuant to SEBI circular no. SEBI/HO/IMD/IMD-II DOF3/P/CIR/2021/583 dated June 25, 2021 regarding Prudential Norms for Liquidity Risk Management of Open Ended Debt Schemes, based on the recommendations of an expert committee and in consultation with SEBI, AMFI had prescribed a framework for Liquidity Risk Management (LRM) for open ended debt schemes (OEDS), except Overnight Fund, Gilt Fund and Gilt Fund with 10-year constant duration, vide AMFI Best Practice Guidelines Circular No.93 / 2021-22 dated 24-Jul-2021 read with read with clarifications issued vide Circular no. 93a/ 2021-22 dated December 3, 2021.

The key elements of LRM framework are –

- (i) Liquidity ratios to address investor behaviour based on the size of their investments;
- (ii) Back-testing of liquidity ratios; and
- (iii) Additional Parameters to be monitored by AMCs (for the OEDS including Liquid Funds) which are to be mandatorily adopted by all AMCs and providing liquidity for other known variables as a best practice.

Based on the recommendations of AMFI Valuation Committee, and in consultation with SEBI, Table 2 of the Annexure 1 of the AMFI best practices guidelines circular No.93 / 2021-22 dated 24-Jul-2021 on the point regarding Liquidity ratio based on 30-day Conditional Redemption at Risk (LR-CRaR) stands revised as indicated in the table below:

Table 2		
Asset Category	Weightage	Rationale
Eligible Assets for LR-RAR (Cash, Government Securities, T-bills and Repo on Government Securities)	100%	

Asset Category	Weightage	Rationale
Listed AAA rated debt securities (including A1+ with lowest long term rating of AAA) without bespoke structures/structured obligations, credit enhancements or embedded options or any other structure / feature which increase the liquidity risk of the instrument**	As per the regulatory haircut for repo transactions as prescribed by RBI from time to time.	Incorporating the clarification issued by AMFI on 03-Dec-2021
For Liquid Fund scheme category, 100% securities held by the scheme which have credit rating of AAA (listed) or A1+ with lowest long term rating of AAA, having residual maturity of less than or equal to 30 days and no adverse news or rumors in the mainstream media about the said security**	100%	Listed AAA rated securities are already permitted in non liquid schemes

***With regard to adverse news or rumours in the mainstream media, AMCs are expected to conduct due diligence at the time of investment and keep a regular vigil on an ongoing basis for their investments. In case of adverse news or rumours within past 90 days from the date of consideration, the instruments shall be removed from the above asset category.*

Note: The aspect of eligibility of securities with credit rating of A1 + subject to its issuer having lowest long-term rating of AAA only, in the above asset category shall be reviewed in consultation with AMFI Valuation Committee in December 2023.

As regards repo on corporate debt securities where settlement is guaranteed by Clearing Corporation, SEBI has advised AMFI that such exposure with residual maturity upto 30 days may be considered for the purpose of LR-CRaR (for both Liquid and other schemes). A copy of SEBI's letter no. SEBI/H0/1MD/IMD-POD-2/P/OW/2023/23603/1 dated June 8, 2023 in this regard is attached for information.

All other provisions of AMFI Best Practice Guidelines Circular No.93 / 2021-22 dated 24-Jul-2021 remained unchanged.

Members are requested to take note of the contents of this circular for uniform implementation and also to place a copy of this circular before their AMC Board and Trustees for information at their next meeting.

With best regards,



B. M. Kini
Dy. Chief Executive