भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

CONSULTATION PAPER ON SPECIFYING TIMELINES FOR DEPLOYMENT OF FUNDS COLLECTED BY ASSET MANAGEMENT COMPANIES (AMC'S) IN NEW FUND OFFER (NFO) AS PER ASSET ALLOCATION OF THE SCHEME

1. Objective

1.1. The objective of this consultation paper is to seek comments/suggestions from public on the proposals related to specifying timelines for deployment of funds collected by Mutual Funds in New Fund Offers (NFO), as per asset allocation of a scheme.

2. Background

2.1. During examination of the periodic submissions made by AMCs, it was observed that in a certain instance there was a considerable delay in deployment of the funds collected through NFO. The delay was attributed to the size of the funds collected as well as the volatility in the market.

2.2. With respect to the offering period for any Mutual Fund scheme, Regulation 34 of SEBI (Mutual Funds) Regulations, 1996 specifies that no scheme of a mutual fund other than the initial offering period of any equity linked savings schemes shall be open for subscription for more than 15 days. Further, the provisions applicable for NFOs are prescribed under Clause 1.10 of the Master Circular dated June 27, 2024 ("Master Circular"), which include the following:

a) All NFOs shall remain open for subscription for a minimum period of three working days.

b) The NFO period in case of ELSS schemes shall continue to be governed by guidelines issued by Government of India.

c) Mutual Funds/AMCs are allowed to deploy the NFO proceeds in triparty repo on Government securities or treasury bills before the closure of NFO period. However, AMCs shall not charge any investment management and advisory fees on funds deployed in triparty repo on Government securities or treasury bills during the NFO period. The appreciation received from investment in triparty repo on Government securities or treasury bills shall be passed onto investors. Further, in case the minimum subscription amount is not garnered by the scheme during the NFO period, the interest earned upon investment of NFO proceeds in triparty repo on Government securities or treasury bills shall be returned to investors, in proportion of their investments, along-with the refund of the subscription amount.

d) The mutual fund should allot units/refund of money and dispatch statements of accounts within five business days from the closure of the NFO and all the schemes (except ELSS) shall be available for ongoing repurchase/sale/trading within five business days of allotment.

2.3. Additionally, as per the present regulatory framework, AMCs have a time period of 6 months from the date of issuance of final observation by SEBI (with respect to a particular scheme) to launch the scheme. The underlying assumption is that AMCs would open the NFO at the most opportune time when market conditions are favorable to make investment based on the asset allocation prescribed in the Scheme Information Document (SID).

2.4. While the provisions mentioned at para 2.2 above prescribe the parameters for deployment such as minimum number of days, temporary deployment in triparty repo on Government securities or treasury bills etc., there is no regulatory provision specifying the timeline for deployment of funds as per the required asset allocation of the scheme after NFO.

2.5. Considering that the size of the corpus required to be deployed after NFO, could be significantly large, suitable flexibility is required for the fund managers to deploy the funds according to his/her/their views on the market. However, the AMC should not retain the proceeds received through NFO, for an indefinite period without deployment in the stated assets. Therefore, it would be prudent to have a timeline within which deployment of funds may be required to be made as per the prescribed asset allocation of the scheme.

2.6. The above matter of timely deployment of funds received in NFO was discussed with Association of Mutual Funds in India (AMFI) wherein it was suggested that the timeline for deployment of funds should be within 90 days.

2.7. The matter was also discussed in the Mutual Funds Advisory Committee (MFAC) and MFAC recommended as under:

a) *The AMC should specify achievable timelines in the SID regarding the deployment of the funds as per the specified asset allocation of the scheme and should garner funds during the NFO accordingly.*

b) *AMCs may be mandated to deploy the funds garnered in NFO within 60 business days from the date of allotment. In case the AMC is not able to deploy the funds in 60 business days, reasons in writing, including details of efforts taken to deploy the funds, should be placed before Investment Committee. The Investment Committee may extend the timeline by 30 business days.*

c) *In case the funds are not deployed as per the asset allocation mentioned in the SID in aforesaid mandated plus extended timelines, AMC may:*

   i. *not be permitted to launch any new scheme till the time the funds are deployed as per the asset allocation mentioned in the SID.*

   ii. *not be permitted to levy exit load, if any, on the investors exiting such scheme(s) after 90 business days of not complying with the asset allocation of the scheme.*

   iii. *report the deviation to Trustees at each of the above stages.*

d) *The above provisions may be made applicable to all NFOs other than for Index Funds and Exchange Traded Funds.*

2.8. The data for the last three financial years regarding the number of days taken by the AMC to deploy the funds as per the asset allocation was analyzed. The summary of the observations is as under:

No. of days taken by AMC to deploy the funds as per asset allocation of the scheme from the date of allotment of units	**No. of schemes**
Above 90 days	5
Above 60 days but below or equal to 90 days	9
Above 30 days but below or equal to 60 days	30
Below or equal to 30 days	603
Total schemes	**647**

2.9. As observed from the data, for 603 out of the 647 NFOs of the schemes, AMCs took less than 30 days from the date of allotment of units to achieve the asset allocation as specified in the SID of the scheme. Further, cumulatively for 633 NFOs of the schemes, the AMCs took less than 60 days from the date of allotment of units to achieve the asset allocation as specified in the SID of the scheme. Therefore, 98 percent of the new fund offers of the scheme launched in the last three financial years were able to achieve the asset allocation as specified in the SID in 60 days or less.

2.10. Considering that most of the schemes achieved asset allocation in 60 days or less, having a time period of 90 business days for the deployment of the funds garnered in the NFO may not be in the interest of the investor.

2.11. Further, root cause analysis was carried out to understand the reason for delay in deployment of funds garnered in NFO and the major reasons included expensive valuation in certain sectors or market capitalizations, market dynamics, uncertainty following geo political developments, unavailability of security with specific maturity etc.

2.12. Accordingly, it is important that Investment Committee examine the root cause before approving part or full extension and Investment Committee should not ordinarily give part or full extension where the assets for such schemes are liquid and readily available.

2.13. Further, if markets become overvalued or there is inadequate availability of desired assets, it is appropriate that instead of delaying the deployment of funds after NFO, the AMCs should slow down collection of funds in the first place.

2.14. In addition to the above, the mutual fund scheme is required to comply with the required asset allocation as per the category of the scheme as specified under Clause 2.6 of the Master Circular. However, as per Clause 1.14 of the Master Circular, the AMC is *inter alia* required to specify the following under the fundamental attributes of the scheme:

"The tentative portfolio break-up of Equity, Debt, Money Market Instruments, other permitted securities and such other securities as may be permitted by the Board from time to time with minimum and maximum asset allocation, ***while retaining the option to alter the asset allocation for a short term period on defensive considerations****."*

2.15. Presently, the term "*short term period*" is not defined under the regulatory framework.

3. Proposal

3.1. Based on the feedback received from the industry and data analysis as provided above, the following is proposed to be prescribed for NFOs:

a) The AMC should specify achievable timelines in the SID regarding the deployment of the funds as per the specified asset allocation of the scheme and should garner funds during the NFO accordingly.

b) AMCs may be mandated to deploy the funds garnered in NFO within 30 business days from the date of allotment of units. In exceptional case the AMC is not able to deploy the funds in 30 business days, reasons in writing, including details of efforts taken to deploy the funds, should be placed before Investment Committee.

c) Investment Committee may extend the timeline by 30 business days, while also making recommendations on how to ensure deployment within 30 business days going forward and monitoring the same. Investment Committee should examine the root cause before approving part or full extension.

Investment Committee should not ordinarily give part or full extension where the assets for such schemes are liquid and readily available.

d) In case the funds are not deployed as per the asset allocation mentioned in the SID in aforesaid mandated plus extended timelines, AMC may:

i. not be permitted to launch any new scheme till the time the funds are deployed as per the asset allocation mentioned in the SID.

ii. not be permitted to levy exit load, if any, on the investors exiting such scheme(s) after 60 business days of not complying with the asset allocation of the scheme.

iii. report the deviation to Trustees at each of the above stages.

e) The above provisions may be made applicable to all NFOs other than for Index Fund and Exchange Traded Funds.

3.2. **Consultation/ Proposal 1:**

a) Whether the proposals at para 3.1 above are appropriate.

b) If markets become overvalued or there is inadequate availability of desired assets, whether the AMCs should be required to slow down collection of funds in the first place instead of delaying the deployment of funds after NFO.

c) Whether the term "*short term period*", in Clause 1.14 of the Master Circular, should be defined. If yes, what would be an appropriate period e.g. 30 days, 60 days or 90 days?

4. Public Comments on this Consultation Paper

4.1. Public comments are invited for the consultation/ proposals at paragraph 3.2. The comments/ suggestions should be submitted through the following link by November 20, 2024:-
https://www.sebi.gov.in/sebiweb/publiccommentv2/PublicCommentAction.do?doPublicComments=yes

4.2. 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 "Consultation paper on specifying timelines for deployment of funds collected in New Fund Offer (NFO) as per asset allocation of the scheme":

a) Mr. Peter Mardi, DGM (peterm@sebi.gov.in)
b) Mr. Tarun Kumar Garg, Manager (tarung@sebi.gov.in)

Issued on: October 30, 2024

****

(End of Consultation Paper)