CIRCULAR

SEBI/HO/IMD/IMD-1 DOF2/P/CIR/2022/164 **November 29, 2022**

To,

All Mutual Funds/

All Asset Management Companies (AMCs)/

All Trustee Companies/ Board of Trustees of Mutual Funds/

All Association of Mutual Funds in India (AMFI)

Dear Sir / Madam,

Sub: Introduction of credit risk based single issuer limit for investment by mutual fund schemes in debt and money market instruments

1. As per Regulation 44(1) read with clause 1 of Seventh Schedule of SEBI (Mutual Funds) Regulations, 1996 ("MF Regulation"), a mutual fund scheme shall not invest more than 10% of its NAV in debt instruments, issued by a single issuer, comprising money market securities and non-money market securities rated investment grade or above by a Credit Rating Agency (CRA). This overall investment limit may be extended to 12% of the NAV of the scheme with the prior approval of the Board of Trustees and Board of Directors of the Asset Management Company.

2. Vide Circular dated May 23, 2022, on "Development of Passive Funds", SEBI introduced credit risk based single issuer limits for debt ETFs/ Index Funds in order to effectively manage the risk associated with such investments.

3. In order to avoid inconsistency in investment by mutual funds in debt instruments of an issuer, irrespective of the scheme being actively or passively managed, it has been decided to introduce a similar credit rating based single issuer limit for actively managed mutual fund schemes.

4. Accordingly, within the limits specified in the clause 1 of Seventh Schedule of the MF Regulation, following prudential limits shall be followed, for schemes other than Credit risk funds:

   i. A mutual fund scheme shall not invest more than:
      a. 10% of its NAV in debt and money market securities rated AAA; or
      b. 8% of its NAV in debt and money market securities rated AA; or
      c. 6% of its NAV in debt and money market securities rated A and below

   issued by a single issuer.

   The above investment limits may be extended by up to 2% of the NAV of the scheme with prior approval of the Board of Trustees and Board of Directors of the AMC, subject to compliance with the overall 12% limit specified in clause 1 of Seventh Schedule of MF Regulation.

5. The long term rating of issuers shall be considered for the money market instruments. However, if there is no long term rating available for the same issuer, then based on credit rating mapping of CRAs between short term and long term ratings, the most conservative long term rating shall be taken for a given short term rating. Exposure to government money market instruments such as TREPS on G-Sec/ T-bills shall be treated as exposure to government securities.

6. The circular shall be applicable for all the new schemes to be launched with effect from date of issuance of the circular. Existing schemes shall be grandfathered from these guidelines till the maturity of the underlying debt and money market securities.

7. 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 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,

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