SEBI has amended the Mutual Fund Regulations, 2026 to provide greater clarity on **intraday borrowing by mutual fund schemes** for managing temporary cash flow mismatches.

Key Changes:

- Regulation 42(2) has been substituted to expressly permit mutual funds to undertake **intraday borrowing**.
- Such borrowing can be used only to address **timing mismatches between a scheme's outflows and inflows**.
- The borrowing will be subject to **conditions and safeguards prescribed by SEBI**.
- The provision is intended to facilitate smoother fund operations without affecting the overall liquidity management framework.

Significance:

- Helps mutual fund schemes meet redemption payments and other obligations when cash outflows occur before expected inflows are received.
- Provides operational flexibility to fund managers in handling short-term liquidity requirements.
- Reduces the risk of forced sale of portfolio securities solely to meet temporary cash shortages.
- Enhances efficiency in cash management while maintaining regulatory oversight.

Key Takeaway

The amendment formally allows mutual funds to use **intraday borrowing as a liquidity management tool** to bridge temporary timing gaps between receipts and payments. This will improve operational efficiency and investor servicing without altering the fundamental restrictions on borrowing by mutual fund schemes.

Following the amendment to Regulation 42(2), SEBI issued a circular on **10 July 2026** prescribing the operational framework and conditions for intraday borrowing by mutual funds. These provisions will be effective from **1 September 2026**.

Key Conditions for Intraday Borrowing

1. Permitted Purposes

Mutual funds may undertake intraday borrowing only for:

- Unitholder payouts such as:
  - Redemptions
  - IDCW (dividend) payouts
  - Interest payments
- Pay-in obligations for investments made by the scheme
- Mark-to-market (MTM) obligations and foreign exchange settlements
- Repayment of existing borrowings

2. Borrowing Limits (Quantum Restrictions)

The amount borrowed intraday must be linked to expected receivables, including:

- Guaranteed receivables such as inflows from:
  - RBI
  - Clearing Corporations
  - Subscription proceeds credited to scheme accounts
- Non-guaranteed receivables expected to be received by the end of the day, such as:
  - Maturity proceeds
  - Secondary market settlements of NCDs, CPs, CDs, OTC swaps, etc.
- Additional borrowing may be undertaken solely for meeting redemption and other investor payouts permitted under Regulation 42(1).

3. Same-Day Repayment

- All intraday borrowings must be repaid by the **end of the day**.

- If converted into overnight borrowing, they must comply with the existing borrowing limits and conditions prescribed under Mutual Fund Regulations.

4. Board-Approved Policy

- The Board of the AMC and Trustees must approve an **Intraday Borrowing Policy**.
- The policy must be disclosed on the AMC's website.
- It should include approval procedures, risk controls, and monitoring mechanisms.

5. Record Keeping

AMCs must maintain scheme-wise records showing:

- Nature of the liquidity mismatch,
- Amount borrowed,
- Expected source of repayment.

6. Cost and Risk to be Borne by AMC

- The cost of intraday borrowing is to be borne by the AMC.
- Any loss or additional cost arising from delays or unforeseen events must also be borne by the AMC and not by the scheme investors.

Key Takeaway

SEBI has allowed intraday borrowing as a **temporary liquidity management tool**, but with strict safeguards: borrowing must be linked to identifiable receivables, used only for specified purposes, repaid on the same day, governed by a board-approved policy, and any associated costs must be borne by the AMC. This framework helps mutual funds manage settlement timing mismatches while protecting investors