



## Association of Mutual Funds in India

135/ BP/96/ 2021-22

March 23, 2022

To,

**All AMFI Members**

Dear Members,

### **AMFI Best Practices Guidelines Circular No.96 / 2021-22**

#### **Sub: Swing Pricing Framework for normal times**

Please refer to SEBI Circular no. SEBI/HO/IMD/IMD-II DOF3/P/CIR/2021/631 dated September 29, 2021 on Swing Pricing Framework for Mutual Fund Schemes, as per which it has been decided by SEBI to introduce swing pricing framework for open ended debt mutual fund schemes (except overnight funds, Gilt funds and Gilt with 10-year maturity funds).

As regards Swing pricing for normal times, SEBI has stipulated that AMFI shall prescribe broad parameters for determination of thresholds for triggering swing pricing for normal times, which shall be followed by the AMC's, and also prescribe an indicative range of swing threshold for normal times (Ref. para I (a)(i) of the circular)

As regards Swing pricing for market dislocation, SEBI has stipulated that for the purpose of determining market dislocation, AMFI shall develop a set of guidelines/parameters/model *and recommend the same to SEBI*. SEBI will determine 'market dislocation' either based on AMFI's recommendation or suo moto. Once market dislocation is declared, it will be notified by SEBI that swing pricing will be applicable for a specified period. (Ref. per para II (a) of the circular)

The matter was examined by AMFI Valuation Committee, and the committee, after multiple rounds of discussions, has provided the committee's recommendations w.r.t. swing pricing during normal times as given in Annexures A hereto.

However, for arriving at the same during market dislocation periods, the committee needed more time for testing the model and fine tuning the same, as the model needed to factor in various quantitative inputs across market cycles and there were dependencies on the data requirement (from valuation agencies etc.) for populating the model. We had therefore requested SEBI to kindly extend the effective date for implementation of the above circular from March 1, 2022 to April 01, 2022, so as to enable AMFI to come with a comprehensive recommendations for Swing pricings for both, Normal times and Market Dislocation period.

After multiple rounds of discussions and iterations, the AMFI Valuation Committee has since provided the committee's recommendations w.r.t. swing pricing during market dislocation times, which we have submitted to SEBI for SEBI's consideration.

The recommendations of the Valuation Committee w.r.t. parameters for determination of thresholds for triggering swing pricing for normal times as mentioned in Annexures A hereto have been duly approved by the Board of AMFI for being uniformly adopted / implemented by all AMCs.

Members are requested to confirm having noted the contents of this circular for due compliance and to place this circular before their Trustees for information at the next meeting of the Trustees.

With best regards,



**B. M. Kini**  
**Dy. Chief Executive**



## ANNEXURE A

### Parameters for Swing Pricing during Normal Times

These are base case parameters laid out by AMFI and all AMCs shall use these parameters as the trigger (floor) for activating Swing Pricing during Normal Times.

- **Threshold for Triggering Swing Pricing :**

- a. 10% net flow from any debt scheme other than Liquid scheme. (excluding Gilt, Gilt with 10 year maturity, overnight funds).
- b. 15% net flow for Liquid scheme.

The thresholds have been kept reasonable to ensure that normal redemption flows should not be penalized with Swing pricing.

At the same time, the floors are not very high to ensure that the Swing pricing would typically get triggered before the LRM allocations are exhausted. Secondly, a moderate floor will also allow individual AMCs to take care of the relative liquidity on the asset side for different type of schemes. **These are floor triggers and AMCs are free to set these limits higher, depending on the dynamics of their schemes both on liability side and on asset side.**

- **Indicative Range of Swing Threshold:**

The Indicative range of the Amount of Swing factor based on the PRC matrix is as follows:

	a	b	c
1	0.00%	0.05%	0.20%
2	0.05%	0.10%	0.40%
3	0.10%	0.20%	0.60%

The above numbers have been arrived at by:

- Creating model portfolios for various PRC boxes.
- Imputing impact cost of sales under normal market conditions
- Segregating the impact cost into explained (market movement which is already expected to be reflected in day end NAV), and unexplained (not fully captured in day end ANV due to lack of adequate trading / polling data).
- Calculating the Swing amount based on the unexplained part
- Rebounding off higher.
- A model calculation for illustrative purposes is provided in the attached excel file named Swing Pricing Workings.xlsx

It may be noted that these are floor swing amounts and the AMCs are free to set these limits higher, depending on the dynamics of their schemes both on liability side and on asset side.