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**Subject:** FW: Proposed Changes to Annexure 1 of AMFI Best Practices Guidelines issued pursuant to SEBI Circular dated June 25, 2021 on Prudential norms for liquidity risk management for open ended debt schemes

**Importance:** High

Madam / Dear Sir,

We invite your kind attention to our trailing email dated December 22, 2022 w.r.t. proposed revision in AMFI guidelines regarding Liquidity ratio based on 30-day Conditional Redemption at Risk (LR-CRaR).

We shall be grateful if you could kindly convey SEBI's concurrence for the proposed revision urgently, so that we may advise our members accordingly.

Regards,

B. M. KINI

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**From:** BM Kini <[BMKini@amfiindia.com](mailto:BMKini@amfiindia.com)>

**Sent:** Thursday, December 22, 2022 9:03 PM

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**Subject:** Proposed Changes to Annexure 1 of AMFI Best Practices Guidelines issued pursuant to SEBI Circular dated June 25, 2021 on Prudential norms for liquidity risk management for open ended debt schemes

**Importance:** High



## 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

AMFI/17/SEBI/ 101/2022-23

Date: December 22, 2022

**Dr. Ruchi Chojer**  
**Chief General Manager**  
**Securities and Exchange Board of India**  
**Investment Management Department**  
**SEBI Bhavan,**  
**C4-A, G Block, Bandra Kurla Complex,**  
**Mumbai 400051**

Madam,

**Sub: Proposed Changes to Annexure 1 of AMFI Best Practices Guidelines Circular 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, AMFI, in consultation with SEBI, has 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, based on the recommendations of an expert committee vide AMFI Best Practice Guidelines circular No.93 / 2021-22 dated 24-Jul-2021 read with circular No.93a / 2021-22 dated December 3, 2021 (copies attached).

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, Table 2 in the Annexure 1 of the aforesaid AMFI circular w.r.t. the point regarding Liquidity ratio based on 30-day Conditional Redemption at Risk (LR-CRaR) is proposed to be revised as explained below:

Eligible assets qualifying for liquidity under LR-CRaR include the following:

Table 2		
Asset Category	Weightage	Rationale
Eligible Assets for LR-RAR (Cash, Government Securities, T-bills and Repo on Government Securities)	100%	
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 rumours 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 rumors 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 by AMFI in December 2023.

We trust SEBI will find the above in order, and hereby request for SEBI's concurrence for the proposed revision as mentioned above, so that we may advise our members accordingly.

Thanks & Regards,

B. M. Kini  
Dy. Chief Executive