

CIRCULAR

SEBI/HO/IMD/IMD-PoD-1/P/CIR/2025/23

February 27, 2025

To All,

**Mutual Funds (MFs)/
Asset Management Companies (AMCs)/
Trustee Companies/ Board of Trustees of Mutual Funds/
Association of Mutual Funds in India (AMFI)/
Registrars to an Issue and Share Transfer Agent (RTAs)**

Madam/ Sir,

Sub: Timelines for deployment of funds collected by Asset Management Companies (AMCs) in New Fund Offer (NFO) as per asset allocation of the scheme

1. With an objective to encourage AMCs to collect only as much funds in NFOs as can be deployed in a reasonable period of time and to discourage any mis-selling of NFOs of the mutual fund schemes, certain amendments to SEBI (Mutual Funds) Regulations, 1996 ('MF Regulations') were carried out and notified through the notification dated February 14, 2025 ([link to the Gazette notification](#)). The said amendments shall be applicable from April 01, 2025.
2. Accordingly, in terms of Regulation 35 (5) of MF Regulations, it has been decided that the following shall be ensured in respect of deployment of funds collected by an AMC in an NFO:
 - a) The AMC shall specify achievable timelines in the Scheme Information Document (SID) of a scheme regarding the deployment of the funds as per the specified asset allocation of the scheme and garner funds during the NFO accordingly.
 - b) The AMC shall deploy the funds garnered in an NFO within 30 business days from the date of allotment of units.
 - c) In an exceptional case, if 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, shall be placed before the Investment Committee of the AMC.

- d) The 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. The Investment Committee shall examine the root cause for delay in deployment before granting approval for part or full extension. The Investment Committee shall not ordinarily give part or full extension where the assets for any scheme are liquid and readily available.
 - e) Trustees shall monitor the deployment of funds collected in NFO and take steps, as may be required, to ensure that the funds are deployed within a reasonable timeframe.
 - f) In case the funds are not deployed as per the asset allocation mentioned in the SID as per the aforesaid mandated plus extended timelines, AMC shall:
 - i. not be permitted to receive fresh flows in the same 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. inform all investors of the NFO, about the option of an exit from the concerned scheme without exit load, via email, SMS or other similar mode of communication.
 - iv. report deviation, if any, to Trustees at each of the above stages.
 - g) The above provisions shall be applicable to all NFOs.
 - h) To effectively manage the fund flows in NFO, the fund manager may extend or shorten the NFO period (except for Equity Linked Savings Scheme (ELSS) schemes), based on his view of the market dynamics, availability of assets and his ability to deploy funds collected in NFO. However, the same shall be subject to compliance with Clause 1.10.1 and 1.10.1A of the Master Circular for Mutual Funds dated June 27, 2024.
3. In order to discourage mis-selling of mutual funds schemes by Mutual Fund Distributors, in terms of Regulation 52 (4A) of the MF Regulations, in case of switch transaction to NFO of a regular plan of mutual fund scheme from an existing scheme managed by the same AMC, the AMC shall ensure that the distribution commission paid is lower of the commissions offered under the two schemes of switch transaction. The detailed guidelines in this regard shall be specified by AMFI, in consultation with SEBI.
4. This circular shall come into effect from April 1, 2025.

5. This circular is issued in exercise of the powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992 read with Regulation 35(5) and 52 (4A) of MF Regulations, to protect the interest of investors in securities and to promote the development of, and to regulate the securities market.
6. This circular is available at www.sebi.gov.in under the link “Legal ->Circulars”.

Yours faithfully,

Peter Mardi
Deputy General Manager
+91-22-26449233
peterm@sebi.gov.in