



**CIRCULAR**

**SEBI/HO/IMD/DF2/CIR/P/2016/57**

**May 31, 2016**

**All Mutual Funds/Asset Management Companies (AMCs)/  
Trustee Companies/Boards of Trustees of Mutual Funds**

Sir/ Madam,

**Subject: Restriction on redemption in Mutual Funds**

1. Presently, in terms of circular SEBI/IMD/CIR No.5/126096/08 dated May 23, 2008, facility of restriction on redemption under any scheme of the mutual fund can be made only after the approval from the Board of Directors of the Asset Management Company (AMC) and the Trustees. The provisions are general in nature and do not specifically spell out the circumstances in which restriction on redemption may be applied; leading to discretionary disclosures and practices in the industry.
2. Recent instance resulting in application of restriction on redemption have necessitated a re-look into the circumstances that require such restriction on redemption. As a philosophy, restriction on redemption should apply during excess redemption requests that could arise in overall market crisis situations rather than exceptional circumstances of entity specific situations. The circumstances calling for restriction on redemption should be such that illiquidity is caused in almost all securities affecting the market at large, rather than in any issuer specific securities.
3. Therefore, in order to bring more clarity and to protect the interest of the investors, the following requirement shall be observed before imposing restriction on redemptions:

- a. Restriction may be imposed when there are circumstances leading to a systemic crisis or event that severely constricts market liquidity or the efficient functioning of markets such as:
  - i. Liquidity issues - when market at large becomes illiquid affecting almost all securities rather than any issuer specific security. AMC's should have in place sound internal liquidity management tools for schemes. Restriction on redemption cannot be used as an ordinary tool in order to manage the liquidity of a scheme. Further, restriction on redemption due to illiquidity of a specific security in the portfolio of a scheme due to a poor investment decision, shall not be allowed.
  - ii. Market failures, exchange closures - when markets are affected by unexpected events which impact the functioning of exchanges or the regular course of transactions. Such unexpected events could also be related to political, economic, military, monetary or other emergencies.
  - iii. Operational issues – when exceptional circumstances are caused by *force majeure*, unpredictable operational problems and technical failures (e.g. a black out). Such cases can only be considered if they are reasonably unpredictable and occur in spite of appropriate diligence of third parties, adequate and effective disaster recovery procedures and systems.
- b. Restriction on redemption may be imposed for a specified period of time not exceeding 10 working days in any 90 days period.
- c. Any imposition of restriction would require specific approval of Board of AMC's and Trustees and the same should be informed to SEBI immediately.
- d. When restriction on redemption is imposed, the following procedure shall be applied:



- i. No redemption requests upto INR 2 lakh shall be subject to such restriction.
    - ii. Where redemption requests are above INR 2 lakh, AMCs shall redeem the first INR 2 lakh without such restriction and remaining part over and above INR 2 lakh shall be subject to such restriction.
  - e. **Disclosure:** The above information to investors shall be disclosed prominently and extensively in the scheme related documents regarding the possibility that their right to redeem may be restricted in such exceptional circumstances and the time limit for which it can be restricted.
4. This circular shall be applicable immediately for (i) all schemes to be launched on or after the date of this circular and (ii) all the existing schemes with effect from July 01, 2016.
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 the provision of Regulation 77 of SEBI (Mutual Funds) Regulation, 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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