

## **Borrowing by Mutual Funds - Bridging temporary timing mismatches between inflow and outflow of funds**

The **Securities and Exchange Board of India (SEBI)** vide its **Circular No: HO/(92)2026-IMD-POD-2/I/6961/2026** dated **March 13, 2026**, has allowed mutual funds to undertake intraday borrowings from banks or financial institutions to bridge temporary timing mismatches between inflow and outflow of funds.

SEBI noted that redemption payouts to investors are often processed in the morning, while maturity proceeds from instruments such as TREPS or reverse repos are received in the evening hours of the same day, creating a temporary timing mismatch. To address this, mutual funds may enter into formal intraday borrowing arrangements with financial institutions such as banks.

As per the circular, with effect from April 1, 2026, intraday borrowing shall be permitted only for the purpose of repurchase or redemption of units or payment of interest or income distribution payouts to unitholders. The borrowing amount must not exceed the guaranteed receivables due on the same day from the Government of India, Reserve Bank of India or the Clearing Corporation of India Limited, including receivables such as maturity proceeds from TREPS, reverse repos, government securities, treasury bills, SDLs, STRIPS, interest on government securities, and sale proceeds of such securities.

SEBI clarified that any cost of intraday borrowing, as well as any loss arising due to delay or unforeseen events in receiving the receivables, shall be borne by the Asset Management Company. The regulator further clarified that borrowing by equity-oriented index funds and equity-oriented ETFs on account of under-execution of sell trades on the stock exchange will be permitted only for participation in the closing auction session of stock exchanges, in the manner specified in SEBI's circular on the closing auction session.

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