



DEBT MARKET

Debt fund categories

SEBI's 17 kinds of debt fund: what each must hold, how they differ, and how the gains are taxed now

Categories as per SEBI's Master Circular of 20 March 2026; fund assets as on 31 August 2026

For training and education only. Not investment advice.

A debt fund's category name is a rule about what it must hold.

SEBI defines 17 debt categories. Most are set by one of three things: how soon the holdings mature, how sensitive the portfolio is to interest rates, or who the borrowers are.

Three ways SEBI draws the lines

One category is left over: the Dynamic Term Fund, which may invest across duration with no band.

3



By maturity of holdings

Overnight, Liquid and Money Market Funds. Each holding must mature within a limit: 1 day, 91 days or 1 year.

6



By portfolio duration

Ultra Short Term to Long Term Funds. The portfolio's Macaulay duration must stay within the category's band.

7



By borrower or type

Corporate Bond, Credit Risk, Banking and PSU, Gilt, 10-year Gilt, Floating Interest Rates and Sectoral Funds.

Source: SEBI Master Circular for Mutual Funds, 20 March 2026, para 3.8.2. The grouping into three is ours; SEBI numbers the categories 1 to 17.

The short end: five categories

Listed in SEBI's order. Assets are net assets of all schemes in the category on 31 August 2026.

Category	What it must hold	Assets (₹ crore)
Overnight Fund	Overnight securities that mature in 1 day.	90,798
Liquid Fund	Debt and money market securities that mature in up to 91 days.	7,18,026
Ultra Short Term Fund	Debt and money market instruments; portfolio Macaulay duration of 3 to 6 months.	1,31,768
Ultra Short to Short Term Fund	Debt and money market instruments; portfolio Macaulay duration of 6 to 12 months.	1,13,696
Money Market Fund	Money market instruments that mature in up to 1 year.	3,39,896

Sources: SEBI Master Circular for Mutual Funds, 20 Mar 2026, para 3.8.2; AMFI Monthly Note, August 2026 (month-end assets).

Longer duration: five categories

Each invests in debt and money market instruments. A band is the Macaulay duration of the whole portfolio; the last has none.

Category	Portfolio Macaulay duration	Assets (₹ crore)
Short Term Fund	1 year to 3 years.	1,05,045
Medium Term Fund	3 years to 4 years. May go down to 1 year in an anticipated adverse situation.	25,436
Medium to Long Term Fund	4 years to 7 years. May go down to 1 year in an anticipated adverse situation.	9,944
Long Term Fund	More than 7 years.	11,435
Dynamic Term Fund	No band. It may invest across duration.	29,986

Sources: SEBI Master Circular for Mutual Funds, 20 Mar 2026, para 3.8.2; AMFI Monthly Note, August 2026 (assets on 31 Aug 2026).

By borrower or type: seven categories

Category	What it must hold	Assets (₹ crore)
Corporate Bond Fund	At least 80% in corporate bonds rated AA+ and above.	1,73,720
Credit Risk Fund	At least 65% in corporate bonds rated AA and below. AA+ bonds do not count.	21,998
Banking and PSU Debt Fund	At least 80% in debt of banks, public sector undertakings, public financial institutions and municipal bonds.	75,289
Gilt Fund; 10-year Constant Maturity Gilt Fund	At least 80% in government securities. The second keeps a portfolio Macaulay duration of 10 years.	29,089; 4,067
Floating Interest Rates Fund; Sectoral Fund	At least 65% in floating rate instruments. Sectoral: at least 80% in AA+ and above debt of one named sector.	52,700; 584

Sources: SEBI Master Circular for Mutual Funds, 20 Mar 2026, para 3.8.2; AMFI Monthly Note, August 2026 (assets on 31 Aug 2026).

The same rise in yields, three categories

THE SET-UP

₹1,00,000 in each of three funds.

Assumed portfolio durations: Liquid Fund 0.1 year, Short Term Fund 2 years, Long Term Fund 8 years.

Yields on all their holdings rise by 0.50 percentage point in a day.

- 1 Rule of thumb from the duration deck: change in value $\approx$ -duration $\times$ change in yield.
- 2 Liquid Fund: $-0.1 \times 0.50 = -0.05\%$. On ₹1,00,000 that is about ₹50.
- 3 Short Term Fund: $-2 \times 0.50 = -1.0\%$, about ₹1,000. Long Term Fund: $-8 \times 0.50 = -4.0\%$, about ₹4,000.
- 4 If yields fell by 0.50 point instead, the same sums would be gains: about ₹50, ₹1,000 and ₹4,000.

Same market move, very different effect on NAV. The category band sets the range of that effect.

Illustration with assumed figures: a rough estimate, before interest earned and expenses. Not a forecast.

Where the money sits

Open-ended debt schemes' net assets, 31 August 2026. Most money is in the shortest categories.

ALL DEBT SCHEMES

₹19.33 lakh cr

₹19,33,476 crore across the 17 categories on 31 August 2026.

THREE SHORTEST BY MATURITY

59.4%

₹11,48,720 crore in Overnight, Liquid and Money Market Funds. Liquid Funds alone: 37.1%.

LONG TERM FUNDS

0.6%

₹11,435 crore. The Sectoral Fund category, new in 2026, held ₹584 crore.

Source: AMFI Monthly Note, August 2026 (month-end assets of income/debt-oriented schemes). Shares computed from the category figures.

How the gains are taxed now

Here a debt fund means a 'specified mutual fund': more than 65% in debt and money market instruments (test in force from FY 2025-26).

Case	Treatment	Rate
Units bought on or after 1 April 2023	The gain is treated as short-term, whatever the holding period. No indexation.	Investor's slab rate
Units bought before 1 April 2023, sold now	Outside the slab-rate rule. Long-term if held more than 24 months (12 if listed). No indexation.	12.5% on long-term gains
Income distributed under the IDCW option	Added to the investor's income. For residents, tax is deducted at source at 10% above ₹10,000 a year from one fund house.	Investor's slab rate

Source: Income-tax law on 'specified mutual funds' (Finance Acts 2023-2025), via a 2026-27 fund-house tax reckoner (secondary). See capital gains deck.

If you learnt this from older material

Two things changed: the tax rule in 2023 and 2024, and the category list in 2026.

What older material says

- 16 debt categories, with names such as Low Duration and Dynamic Bond (2017).
- Held for over 36 months, gains are long-term: 20% with indexation.
- Move into long-term debt funds when rates are about to fall.

What holds now

- 17 categories, with names such as Ultra Short to Short Term and Dynamic Term (2026).
- Units bought from 1 April 2023: slab rate, whatever the holding period.
- That is a forecast. Longer duration gains more if yields fall and loses more if they rise.

Sources: SEBI circular, 6 Oct 2017; Master Circular, 20 Mar 2026, paras 3.8.2, 3.8.9; income-tax rules on specified mutual funds (see capital gains deck).

Four things people get wrong



'Debt funds cannot fall.'

NAV falls when yields rise or when a bond is marked down. The longer the duration, the larger the move. Returns are not assured.



'A Gilt Fund carries no risk.'

RBI: government securities carry practically no default risk, but prices move with yields. A Gilt Fund has no duration band.



'A Liquid Fund is a savings account.'

It is a mutual fund scheme with a daily NAV. An exit load applies to money taken out within 7 calendar days.



'The category tells me the credit quality.'

Only some do. Duration-based categories set no rating floor. The Potential Risk Class shows the most credit risk a scheme may take.

Check yourself

Q1

A scheme must keep its portfolio Macaulay duration between 6 and 12 months. What is its SEBI category now, and what was the 2017 name?

Q2

A Corporate Bond Fund and a Credit Risk Fund both hold company bonds. What must each hold?

Q3

A client bought units of a Short Term Fund in January 2024 and redeems them in October 2026 at a gain. Is the gain long-term, and how is it taxed?

Sources and disclaimer

SOURCES FOR THE FIGURES IN THIS DECK

- Debt categories (para 3.8.2), compliance by 26 Aug 2026 (para 3.8.9), liquid fund exit load (5.6.5), Potential Risk Class (para 6.18): SEBI Master Circular for Mutual Funds, 20 Mar 2026.
- Net assets by category on 31 August 2026: AMFI Monthly Note, August 2026. Group totals and percentage shares are computed from those figures.
- 2017 category names and the count of 16: SEBI circular 'Categorization and Rationalization of Mutual Fund Schemes', 6 October 2017.
- Tax on debt fund units and income distributions: income-tax provisions on 'specified mutual funds', as summarised in a fund-house tax reckoner for 2026-27 (secondary).
- Government securities and default risk: Reserve Bank of India, FAQs 'Government Securities Market in India'.
- The worked example uses assumed durations and an assumed change in yields. It is an illustration, not an estimate for any actual scheme.

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