



CIRCULAR

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November 11, 2011

All Mutual Funds/Asset Management Companies

Sir / Madam,

Sub: Participation of mutual funds in repo in corporate debt securities

1. The Reserve Bank of India, vide notification no.IDMD.DOD.05./11.08.38/2009-10 dated January 8, 2010, has issued the 'Repo in Corporate Debt Securities (Reserve Bank) Directions, 2010'. The same has been modified vide RBI Circular No. DNBS.PD/CC. No. 196/03.05.002/2010-11 dated August 11, 2010 and RBI Circular No. IDMD.PCD.22/11.08.38/2010-11 dated November 09, 2010.
2. The said Directions have, *inter alia*, enabled mutual funds to participate in repos in corporate debt securities subject to the approval of the Securities and Exchange Board of India.
3. It has been decided that mutual funds can participate in repos in corporate debt securities as per the guidelines issued by RBI from time to time, subject to the following conditions:
 - a. The gross exposure of any mutual fund scheme to repo transactions in corporate debt securities shall not be more than 10 % of the net assets of the concerned scheme.
 - b. The cumulative gross exposure through repo transactions in corporate debt securities along with equity, debt and derivatives shall not exceed 100% of the net assets of the concerned scheme.
 - c. Mutual funds shall participate in repo transactions only in AAA rated corporate debt securities.
 - d. In terms of Regulation 44 (2) of the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, mutual funds shall borrow through repo transactions only if the tenor of the transaction does not exceed a period of six months.
 - e. The Trustees and the Asset Management Companies shall frame



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guidelines about, *inter alia*, the following in context of these transactions, keeping in mind the interest of investors in their schemes:

- i. Category of counterparty
 - ii. Credit rating of counterparty
 - iii. Tenor of collateral
 - iv. Applicable haircuts
- f. Mutual funds shall ensure compliance with the Seventh Schedule of the Mutual Funds Regulations about restrictions on investments, wherever applicable, with respect to repo transactions in corporate debt securities.
- g. The details of repo transactions of the schemes in corporate debt securities, including details of counterparties, amount involved and percentage of NAV shall be disclosed to investors in the half yearly portfolio statements and to SEBI in the half yearly trustee report.
- h. To enable the investors in the mutual fund schemes to take an informed decision, the concerned Scheme Information Document shall disclose the following:
- i. The intention to participate in repo transactions in corporate debt securities in accordance with directions issued by RBI and SEBI from time to time;
 - ii. The exposure limit for the scheme; and
 - iii. The risk factors associated with repo transactions in corporate bonds
4. This circular is issued in exercise of powers conferred under section 11(1) of the Securities and Exchange Board of India Act, 1992, read with the provisions of regulation 77 of SEBI (Mutual Funds) Regulations, 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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