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**Addendum No 47 –February 2013****Addendum dated February 11, 2013 to all Open Ended Schemes of IDFC Mutual Fund**

The following guidelines for participation of mutual funds in Repo in corporate debt securities has been approved by the board of IDFC Asset Management company Limited and IDFC AMC Trustee Company Limited.

**1. Preamble:**

SEBI has vide CIRCULAR no. CIR / IMD / DF / 19 / 2011 dated November 11, 2011 enabled mutual funds to participate in repos in corporate debt securities as per the guidelines issued by RBI from time to time and subject to few conditions listed in the circular.

The circular requires the Trustees and the Asset Management Companies to frame 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

**2. Conditions applicable (as per SEBI circular):**

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. 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.

f. 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.

g. 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

### **3. Guidelines to be followed by IDFC Mutual Fund:**

The following guidelines shall be followed by IDFC Mutual Fund for participating in repo in corporate debt security:

#### **i. Category of counterparty & Credit rating of counterparty**

All the counterparties with whom IDFC Mutual Fund currently deals in repo (SLR) shall be eligible for corporate bonds repo subject to execution of corporate bond repo agreement.

#### **ii. Tenor of Repo**

Tenor of repo shall be capped to 3 months as against maximum permissible tenor of 6 months. Any repo for a tenor beyond 3 months shall require prior approval from investment committee of the fund. There shall be no restriction / limitation on the tenor of collateral.

#### **iii. Applicable haircut**

A haircut of minimum 5% on the market value of the underlying security irrespective of the tenor to adjust for the illiquidity of the underlying instrument. The 5% mentioned herein is a function of how market practice evolves with respect to corporate bond repo. Prior approval of the Investment committee shall be sought for change in the haircut from existing 5% to such other % as deemed fit.

#### **iv. Additional internal investment limit:**

Any scheme shall not lend / borrow more than 10% of its corpus in repo against corporate bonds or 5% of total AUM of the Mutual fund (excluding Fund of fund) whichever is lower.

**This Addendum forms an integral part of the Scheme Information Document(s)/ Key Information Memorandum cum Application Form(s) of the Schemes of IDFC Mutual Fund read with the addenda issued there under**

**Addendum dated: February 11, 2013**