



CIRCULAR

CIR/IMD/DF/23/2012

November 15, 2012

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

Sir/ Madam,

Subject: Participation of mutual funds in Credit Default Swaps (CDS) Market as Users (“Protection Buyers”) and in repo, in corporate debt securities

A. CDS – mutual funds as users (protection buyers)

1. The Reserve Bank of India (RBI), vide notification No. IDMD.PCD.No.5053/14.03.04/2010-11 dated May 23, 2011, has issued the ‘Guidelines on Credit Default Swaps for Corporate Bonds’.
2. It has been decided to permit mutual funds to participate in CDS market, as per the guidelines issued by RBI from time to time, subject to the following conditions:
 - a. Mutual funds shall participate in CDS transactions only as users (protection buyer). Thus, mutual funds are permitted to buy credit protection only to hedge their credit risk on corporate bonds they hold. They shall not be allowed to sell protection and hence not permitted to enter into short positions in the CDS contracts. However, they shall be permitted to exit their bought CDS positions, subject to para 2(d) below.
 - b. Mutual funds can participate as users in CDS for the eligible securities as reference obligations, constituting from within the portfolio of only Fixed Maturity Plans (FMP) schemes having tenor exceeding one year.
 - c. Mutual funds shall buy CDS only from a market maker approved by the RBI and enter into Master Agreement with the counterparty as stipulated under RBI

Guidelines. Exposure to a single counterparty in CDS transactions shall not exceed 10% of the net assets of the scheme.

- d. The cumulative gross exposure through credit default swap in corporate bonds along with equity, debt and derivative positions shall not exceed 100% of the net assets of the scheme.
 - e. The total exposure related to premium paid for all derivative positions, including CDS, shall not exceed 20% of the net assets of the scheme.
 - f. Before undertaking CDS transactions, mutual funds shall put in place a written policy on participation in CDS approved by the Board of the Asset Management Company and the Trustees as per the guidelines specified by RBI and Securities and Exchange Board of India (SEBI). The policy shall be reviewed by mutual funds, at least once a year.
 - g. To enable the investors in the mutual funds schemes to take an informed decision, the concerned Scheme Information Document (SID) shall disclose the intention to participate in CDS transaction in corporate debt securities in accordance with directions issued by RBI and SEBI from time to time, and related information as appropriate in this regard.
 - h. Mutual funds shall also disclose the details of CDS transactions of the scheme in corporate debt securities in the monthly portfolio statements as well as in the half yearly trustee report, as per the format placed at **Annexure-A**. Further, mutual funds shall disclose the schemewise details of CDS transactions in the notes to the accounts of annual report of the mutual fund as per the format placed at **Annexure-B**.
3. Mutual funds participating in CDS transactions, as users, shall be required to comply with the guidelines issued by RBI, vide notification no.



IDMD.PCD.No.5053/14.03.04/2010-11 dated May 23, 2011 and subsequent guidelines issued by RBI and SEBI from time to time.

B. Participation of mutual funds in repo in corporate debt securities

1. SEBI vide circular no. CIR/IMD/DF/19/2011 dated November 11, 2011, allowed mutual funds to participate in repo in corporate debt securities.
2. In order to encourage growth of the corporate bond market, it has been decided that base of eligible securities may be expanded, for mutual funds to participate in repo in corporate debt securities, from AAA rated to AA and above rated corporate debt securities.
3. Therefore, in partial modification to the aforesaid circular, para 3 (c) of the circular shall now read as under:
“Mutual funds shall participate in repo transactions only in AA and above rated corporate debt securities.”

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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Format for disclosure to be made in the monthly portfolio statements and half-yearly trustee report

Counter-party Details			Details of the underlying			Details of Protection				Credit event payments received
Name	Rating	Sector	Name of the reference entity	Amount (FV)	Residual Maturity	Amount	Tenor	Price/Spread (bps)	Premium paid	

(Amount in ₹ crore, Residual Maturity/Tenor in years)

Format for disclosure to be made in the notes to account of annual report of the mutual funds

1. No. of transactions during the year
2. Amount of protection bought during the year
3. No. of transactions where credit event payment was received during the year:
 - a. Pertaining to current years transactions.
 - b. Pertaining to previous year (s) transactions.
4. Outstanding transactions as on year end:
 - a. No. of transactions
 - b. Amount of protection
5. Net income/ expense in respect of CDS transactions during year-to-date:
 - a. Premium Paid
 - b. Credit event payments received (net of value of derivable obligations)