

### **Addendum No 2/2010**

The Rules regarding exposure to derivative instruments by the schemes of Mutual Fund had been revised by SEBI vide circular reference number Cir/ IMD/ DF/ 11/ 2010 dated August 18, 2010. The following provisions will be applicable for all schemes launched by IDBI Asset Management Ltd with immediate effect.

#### **Exposure Limits**

1. The cumulative gross exposure through equity, debt and derivative positions should not exceed 100% of the net assets of the scheme.
2. Mutual Funds shall not write options or purchase instruments with embedded written options.
3. The total exposure related to option premium paid must not exceed 20% of the net assets of the scheme.
4. Cash or cash equivalents with residual maturity of less than 91 days may be treated as not creating any exposure.
5. Exposure due to hedging positions may not be included in the above mentioned limits subject to the following
  - a. Hedging positions are the derivative positions that reduce possible losses on an existing position in securities and till the existing position remains.
  - b. Hedging positions cannot be taken for existing derivative positions. Exposure due to such positions shall have to be added and treated under limits mentioned in Point 1.
  - c. Any derivative instrument used to hedge has the same underlying security as the existing position being hedged.
  - d. The quantity of underlying associated with the derivative position taken for hedging purposes does not exceed the quantity of the existing position against which hedge has been taken.
6. Mutual Funds may enter into plain vanilla interest rate swaps for hedging purposes. The counter party in such transactions has to be an entity recognized as a market maker by RBI. Further, the value of the notional principal in such cases must not exceed the value of respective existing assets being hedged by the scheme. Exposure to a single counterparty in such transactions should not exceed 10% of the net assets of the scheme.
7. Exposure due to derivative positions taken for hedging purposes in excess of the underlying position against which the hedging position has been taken, shall be treated under the limits mentioned in point 1.

#### **Definition of Exposure in case of Derivative Positions**

8. Each position taken in derivatives shall have an associated exposure as defined under. Exposure is the maximum possible loss that may occur on a position. However, certain derivative positions may theoretically have unlimited possible loss. Exposure in derivative positions shall be computed as follows:

Position	Exposure
Long Future	Futures Price * Lot Size * Number of Contracts
Short Future	Futures Price * Lot Size * Number of Contracts
Option bought	Option Premium Paid * Lot Size * Number of Contracts.

#### **Disclosure of derivatives in Half Yearly and annual Portfolios reports**

9. The mutual fund shall disclose the details of derivatives position taken by them separately for Hedging Positions through Futures , Other than Hedging Positions through Futures , Hedging Positions through Put Options , Other than Hedging Positions through Options and Hedging Positions through swaps in the half yearly portfolio disclosure and annual report.
10. Further, while listing net assets, the margin amounts paid should be reported separately under cash or bank balances.

#### **Hedging Positions through swaps**

Swaps should be disclosed separately as two notional positions in the underlying security with relevant maturities. For example, an interest rate swap under which a mutual fund is receiving floating rate interest and paying fixed rate will be treated as a long position in a floating rate instrument of maturity equivalent to the period until the next interest fixing and a short position in a fixed rate instrument of maturity equivalent to the residual life of the swap.

The clauses mentioned in the SID of IDBI Liquid Fund, IDBI Nifty Index Fund and IDBI Nifty Junior Index Fund regarding exposure to derivatives stand modified to the said extent.

**For IDBI Asset Management Ltd.**  
**(Investment Manager for IDBI Mutual Fund)**

Date: August 18, 2010  
Place: Mumbai

Sd/-  
**Compliance Officer**

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**Risk Factors:** All mutual funds and securities investments are subject to market risks and there can be no assurance that the objective of the Scheme will be achieved. The NAV of the units issued under Scheme may go up or down depending upon the factors and forces affecting the securities markets. Please read the Scheme Information Documents (SID) and Statement of Additional Information (SAI) carefully before investing