DIVISION CHIEF
MUTUAL FUNDS DEPARTMENT

MFD/CIR/01/ 047/99
February 10, 1999

All Mutual Funds registered with SEBI/

All Asset Management Companies/

Unit Trust of India

Dear Sir,

Re. : Guidelines for Participation by Mutual Funds in Stock Lending Scheme

As you are aware, the amendments to the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, permit mutual funds to lend securities in accordance with the Stock Lending Scheme, under sub regulation (4) of regulation 44.

The detailed guidelines for securities lending by mutual funds are being issued now under Regulation 77 of the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, which are enclosed. Please note that the mutual funds can lend securities through the intermediaries who are approved by SEBI for this purpose.

Yours faithfully,

P.K.NAGPAL

c.c. : AMFI

GUIDELINES FOR PARTICIPATION BY MUTUAL FUNDS IN SECURITIES LENDING SCHEME

1. Disclosure Requirements:

To enable the investors and the unit holders of Mutual Funds to take an informed decision, the offer document of the mutual fund scheme shall disclose the following:

a. **the intention to lend the securities belonging to mutual fund scheme in accordance with the terms of securities lending scheme announced by SEBI;**
b. **the exposure limit with regard to securities lending both for the scheme as well as for a single intermediary;**

c. **the market risks associated with securities lending transactions such as loss, bankruptcy etc.**

2. **Valuation of Collateral Security :**

The securities lending contract to be entered into by the mutual fund shall carry specifications with regard to the collateral security and its valuation so as to minimize the risk involved, such as;

a. **if the borrowing and lending transactions are envisaged to be co-terminus, the collateral security offered by the borrower shall be held by the approved intermediary in the account of the fund or transferred in the name of the fund depending upon the tenure of the contract.;**
b. **the value of the collateral security shall at all times remain above the value of securities lent;**
c. **if the collateral security is in the form of securities, the same shall be in securities listed and actively traded on stock exchanges and marked to market on a daily basis;**
d. **description and nature of collateral securities and the tenure for which the securities would be lent.**

3. Reporting Requirement :

The Asset Management Company of the mutual fund shall report to the trustees on a quarterly basis about the level of lending, in terms of value, volume and intermediaries and also earnings / losses, value of collateral security etc.;

a. **The securities lending contract shall be periodically reviewed by the trustees and they shall take reasonable steps to ensure that the same is not, in any way, detrimental to the interests of the unit-holders of the scheme.**
b. **The Trustees shall offer their comments on the above aspects in the report filed with SEBI under sub regulation (23) (a) of regulation 18 of Securities and Exchange Board of India (Mutual Funds) Regulations, 1996.**
c. **The trustees of the Mutual Funds shall ensure the strict compliance of these guidelines.**

4. **Existing schemes:**

In case the offer document of an existing scheme does not provide for lending of securities, the mutual fund, if it so desires, may lend securities belonging to a scheme, in accordance with these guidelines, provided that it obtains approval from the trustees of the mutual fund and the intention of the mutual fund to lend securities shall be informed to the unit holders.