



बीमा विनियामक और विकास प्राधिकरण
**INSURANCE REGULATORY AND
DEVELOPMENT AUTHORITY**

Ref: IRDA/F&I/CIR/INV/ 250/12/2012

4th December, 2012

The CEOs of all Insurers

Sub: **Participation of Insurers in Repo / Reverse Repo transactions in Corporate
Debt Securities**

1. The Authority allowed the Insurers to participate in Repo/Reverse transactions in Govt Securities through Collateralized Borrowing and Lending Obligation (CBLO).
2. 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 was modified vide RBI Circular No. IDMD.PCD.22/11.08.38/2010-11 dated November 09, 2010. Within the Guidelines issued by RBI, participation in repo transactions in Corporate Debt Securities by Insurers has been envisaged, subject to the approval of the IRDA.
3. IRDA prepared draft exposure draft and invited public comments by placing the draft on its website www.irda.gov.in on 3rd August, 2012. The comments were received from various stake holders including Insurance Companies, Regulators,

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market participants etc. After examining these comments in detail, the draft guidelines are suitably modified as follows:

4. Insurers are permitted to undertake Repo transactions in Corporate Debt Securities subject to other provisions of Insurance Act, 1938 and following conditions:

a. In case of Life Insurance Companies, the exposure to reverse repo (Lending) transactions in Government securities and Corporate Debt Securities at any point of time shall not exceed 10% of all funds taken together. Further, at Segregated Fund level, the exposure should not exceed 10% of such fund size. Life Insurance Companies are not permitted to participate in repo transactions.

b. In case of Non-Life Insurance Companies, the exposure to Reverse Repo and Repo transactions in both Government Securities as well as Corporate Bond Securities shall not exceed 10% of Investment Assets of the Insurer.

c. The tenor of Repo transactions shall not exceed a period of six months. While entering into such repo transaction (borrowing), prior approval of the Investment Committee shall be obtained.

- d. The underlying corporate debt security shall be listed and have a minimum rating of AA or equivalent.
- e. Reverse Repo/Repo transactions in Corporate Debt Securities shall not be permitted between the Insurer and its promoter group entities.
- f. The Securities held as collaterals in a Reverse Repo shall not be taken into consideration for computation of exposure under Regulation 5 of IRDA (Investment) Regulation, 2000. In Reverse Repo transaction, the exposure shall be on the counterparty. The following disclosures should be made by the Insurers in the Notes on Annual Accounts to the balance sheet:

	Minimum outstanding during the year	Maximum outstanding during the year	Daily average outstanding during the year	Outstanding as on March 31
Securities Sold under repo				
i. Government Securities				
i. Corporate Debt Securities				
Securities purchased under reverse repo				
i. Government Securities				
i. Corporate Debt Securities				

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- g. Insurer shall enter into bilateral Reverse Repo/ Repo agreement as per the documentation finalized by FIMMDA. Such additional clauses may also be inserted in the standard agreement to suit the specific needs of the Insurance regulatory framework provided such clauses should be more stringent than the standard clauses provided by FIMMDA.

- h. In all other matters such as Accounting Methodology, reporting of trades, settlement of trades, prohibition on sale of repoed security, haircut, valuation etc. related to such Repo and Reverse Repo transactions, Insurers shall follow the Directions given in notification IDMD.DOD.05/11.08.38/2009-10 dated January 8, 2010, issued by RBI and as updated from time-to-time.

- i. The Board of the Insurer shall issue necessary Guidelines in the Investment Policy covering the following:
 - i. Category of Counterparty
 - ii. Credit rating of the instruments issued by the Counterparty
 - iii. Exposure on the Counter party subject to the maximum limits prescribed in this circular
 - iv. Maximum exposure on the specific Corporate Debt Instrument and the Issuer of such Debt Instrument

v. Tenor of Collateral

vi. Applicable Haircuts

vii. The treatment of 'downgrading of rating' during the tenure of repo transaction

j. At any point of time these transactions shall be in compliance with Regulation 3, 4 and 5 of the IRDA (Investment) Regulation, 2000 as amended from time to time and other Guidelines, Circulars as issued from time to time.

k. A quarterly certificate shall be issued by the Concurrent Auditor specifically on Repo transactions (borrowing) and the same shall form part of the certificate issued as per the Technical Guide on Internal / Concurrent Audit of Insurance Companies issued by ICAI. All Repo transaction shall also be reported to the Investment Committee and Board periodically.


R K NAIR
MEMBER (F & I)