Investment Valuation Policy

(Last Amended on June 27, 2022)

Scope of the policy

The investment Valuation Policy aims to provide broad valuation guidelines to be followed for each type of security. Policy on valuation of investments shall be used by IDBI Asset Management Limited for declaring Net Asset Value**.** The same shall be reviewed annually by the Valuation Committee and also by an independent Chartered Accountant firm.

Any introduction/modification / changes in the Valuation Policy for a new or an existing asset type shall be approved by the Valuation Committee and incorporated thereafter in the Valuation Policy.

Frequency of review: The policy shall be reviewed annually or more frequently, if required, either due to change in Regulations or business environment.

Preamble:

The Securities & Exchange Board of India vide gazette notification No. LAD-NRO/GN/2011-12/38/4290 dated February 21, 2012 pertaining to Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2012 notified guidelines regarding the valuation of investments by the Asset Management Companies of Mutual Funds. As per the guidelines the valuation of investments shall be based on the principles of fair valuation i.e. valuation shall be reflective of the realizable value of the securities/assets as on the valuation date. AMFI Valuation committee has further recommended specific guidelines for valuation of debt instruments based on the fair value principle.

Valuation Committee

All decisions pertaining to valuation, in conformity with the policy guidelines, shall be taken by the valuation committee. The constitution of the valuation Committee is as under:

Constitution:

The valuation Committee will comprise of the following members:

CFO & COO (as Chairman of the Committee)

Head- Equity

Head-Fixed Income

Chief Risk Officer

Compliance Officer

Frequency of valuation committee meeting:

The valuation Committee shall meet on a quarterly basis or more often, if required in order to deliberate on specific proposals. The Committee Shall be responsible for addressing areas of conflict of interest and thereafter recommend changes if any in policy/methodology.

Functions of the Valuation Committee:

- to provide guidelines on valuation within the regulatory framework,
- decide on specific cases as may be referred to the committee,
- appoint/recommend the appointment of third party agencies for valuation,
- evaluate the performance of such agencies on a periodic basis,
- review the valuation policy

As prescribed by SEBI, valuation guidelines shall attempt to adhere to the principles of fair valuation, in order ensure that securities are valued at prices/yields that are close to realizable/market values.

Investment in new type of securities shall be made only after the valuation guidelines for such securities are established and approved by the AMC Board and Trustees Board.

The AMC shall maintain and preserve documentation for valuation (including inter scheme transfers) either in electronic or physical form for a period of 8 years or such period as specified by SEBI from time to time.

The valuation policy shall be disclosed in the Statement of Additional Information (SAI) and on the website (www.idbimutual.co.in) and at any other places as may be specified by SEBI.

Definitions:

1. **Traded Equity Securities**

   An equity and / or equity related securities (such as preference shares, convertible debentures, equity warrants etc.) would be considered as traded if:

   a) The security is traded on any stock exchange within a period of 30 days including the date of valuation and if:
   b) the aggregate value of trade during such period is more than Rs. 5,00,000; or
   c) the total volume of trade during such period is more than 50,000 shares.

2. **Thinly Traded Equity Securities**

An equity and / or equity related securities (such as preference shares, convertible debentures, equity warrants etc.) would be considered as thinly traded if in a previous calendar month:

a) the aggregate value of trade in such security is less than Rs. 5,00,000; and
b) the total volume of trade in such security is less than 50,000 shares, in recognized stock exchange in India.
c) For example, if the volume of trade is 1,00,000 and value is Rs.4,00,000, the shares do not qualify as thinly traded. Also, if the volume traded is 40,000, but the value of trades is Rs.6,00,000, the shares do not qualify as thinly traded.

3. **Non-Traded Equity Securities**

When a security (other than government securities) is not traded on any stock exchange for a period of thirty days prior to the valuation date, the scrip shall be treated as a non-traded security.

4. **Unlisted Securities**

If on a valuation date a security is not listed on any of the stock exchanges, it would be considered as unlisted security.

5. **Recognized Stock Exchange**

National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) would be considered as recognized stock exchanges in India.

6. **Principal Stock Exchange**

National Stock Exchange (NSE) would be considered as principal stock exchange.

7. **Secondary Stock Exchange**

Bombay Stock Exchange (BSE) would be considered as secondary stock exchange.

8. **ASBA**

ASBA means “Application Supported by Blocked Amount”. ASBA is an application containing an authorization to block the application money in the bank account, for subscribing to an issue. If IDBI AMC applies through ASBA, its application money shall be debited from the bank account only if its application is selected for allotment after the basis of allotment is finalized, or the issue is withdrawn/failed.

9. Debt instruments/Securities

"debt securities/debt instruments" means a non-convertible debt securities which create or acknowledge indebtedness, and include debenture, bonds, mezzanine debt and such other securities of a body corporate or any statutory body constituted by virtue of a legislation, whether constituting a charge on the assets of the body corporate or not, but excludes bonds issued by Government or such other bodies as may be specified by SEBI, security receipts and securitized debt instruments including pass through vehicles

10. Money Market instruments

Money market instruments" includes commercial papers, commercial bills, treasury bills, Government securities having an unexpired maturity up to one year, call or notice money, certificate of deposit, and any other like instruments as specified by the Reserve Bank of India from time to time.

11. <u>Traded Money Market and Debt Securities</u>

A money market or debt security shall be considered as traded when, on the date of valuation, there are trades (in marketable lots) in that security on any recognized Stock Exchange or there are trades reported (in marketable lots) on the trade reporting platform of recognized stock exchanges or The Clearing Corporation of India Ltd. (CCIL). In this regard, the marketable lots shall be defined by AMFI, in consultation with SEBI.

Currently, marketable lot as defined by AMFI is as follow:

Parameter	Minimum Volume criteria for marketable lot
Primary	Rs. 25 crores for both Bonds/NCD/CP/CD and other money market instruments Secondary
Secondary	Rs. 25 crores for CP/CD, T-Bills and other money market instruments
Secondary	Rs. 5 crores for Bonds/NCD/G-Secs

Trades not meeting the minimum volume criteria i.e the marketable lot crtiteria as stated aabove shall be ignored.

12. Non-Traded Money Market and Debt Securities

A money market or debt security shall be considered as non-traded when, on the date of valuation, there are no trades (in marketable lots) in such security on any recognized Stock Exchange or no trades (in marketable lots) have been reported on any of the aforementioned trade reporting platforms.

As the valuation methodology for thinly traded debt securities is same as non-traded debt securities, a separate definition of thinly traded debt securities is not required

13. Below Investment Grade Securities

A money market or debt security shall be classified as "below investment grade" if the long term rating of the security issued by a SEBI registered Credit Rating Agency (CRA) is below BBB- or if the short term rating of the security is below A3.

14. Default Securities

A money market or debt security shall be classified as "Default" if the interest and / or principal amount has not been received, on the day such amount was due or when such security has been downgraded to "Default" grade by a CRA.

Any extension in the maturity of a money market or debt security shall result in the security being treated as "Default", for the purpose of valuation.

If the maturity date of a money market or debt security is shortened and then subsequently extended, the security shall be treated as "Default" for the purpose of valuation.

15. Force Majeure Event

Force Majeure Event are events which occur due to natural calamities, civil commotion, war, strikes, riots, and bandhs, excessive volatility in stock/bond markets, shutdown of exchanges, breakdown in trading in some segments of the financial market, major policy announcements by the Governments/Central Bank/Regulators or any other acts of god or other similar event or causes beyond AMC's reasonable control.

16. Securitized debt instrument

Securitized debt instrument means any certificate or instrument, by whatever name called, issued to an investor by any issuer being a special purpose distinct entity which possesses any debt or receivable, including mortgage debt, assigned to such entity, and acknowledging beneficial interest of such investor in such debt or receivable, including mortgage debt, as the case maybe.

A. Valuation of Money Market and Debt securities

Money Market and Debt Securities are mainly classified into following 2 categories:

i. Coupon bearing securities like Non-Convertible Debentures (NCD), Bonds, etc.

ii. Discounted securities like Zero Coupon Bonds (ZCB), Commercial Papers (CP), Certificate of Deposits (CD), Bills Purchased under Rediscounting Scheme (BRDS), Discounted Securitised Debt/Pass Through Certificate (PTC), etc.

1. Valuation of money market and debt securities with residual maturity of upto 30 days:

All money market and debt securities including floating rate securities, with residual maturity of upto 30 days shall be valued on amortization basis.

Further, the amortized price shall be compared with the reference price which shall be the average of the security level price of such security as provided by the agency(ies) appointed by AMFI for said purpose (hereinafter referred to as "valuation agencies"). The amortized price shall be used for valuation only if it is within a threshold of ±0.025% of the reference price. In case of deviation beyond this threshold, the price shall be adjusted to bring it within the threshold of ±0.025% of the reference price.

In case security level prices given by valuation agencies are not available for a new security (which is currently not held by any Mutual Fund), then such security may be valued on amortization basis on the date of allotment / purchase.

Further, with effect from April 01, 2020 onwards, amortization based valuation shall be dispensed with and irrespective of residual maturity, all money market and debt securities shall be valued in terms of below mentioned paragraph.

However, as per the SEBI Circular No. SEBI/HO/IMD/DF3/CIR/P/2020/76 dated April 30, 2020 the date of applicability of this clause is extended June 30, 2019.

2. Valuation of money market and debt securities with residual maturity of over 30 days:

All money market and debt securities including floating rate securities, with residual maturity of over 30 days shall be valued at average of security level prices obtained from valuation agencies appointed by AMFI (currently, CRISIL and ICRA).

In case security level prices given by valuation agencies are not available for a new security (which is currently not held by any Mutual Fund), then such security may be valued at purchase yield on the date of allotment / purchase.

3. Valuation of securities with Put/Call Options

The option embedded securities would be valued as follows:

a) Securities with Call Option:

The securities with call option shall be values at the lower of the value as obtained by valuing the security to final maturity and valuing the security to call option.

In case there are multiple call options, the lowest value obtained by valuing to the various call dates and valuing to the maturity date is to be taken as the value of the instrument.

b) Securities with Put Option:

The securities with put option shall be values at the higher of the value as obtained by valuing the security to final maturity and valuing the security to put option.

In case there are multiple put options, the highest value obtained by valuing to the various put dates and valuing to the maturity date is to be taken as the value of the instrument.

c) Securities with both Put and Call Option:

Only securities with put / call options on the same day and having the same put and call option price, shall be deemed to mature on such put / call date and shall be valued accordingly. In all other cases, the cash flow of each put / call option shall be evaluated and the security shall be valued on the following basis:

i) Identify a 'Put Trigger Date', a date on which 'price to put option' is the highest when compared with price to other put options and maturity price.

ii) Identify a 'Call Trigger Date', a date on which 'price to call option' is the lowest when compared with price to other call options and maturity price.

iii) In case no Put Trigger Date or Call Trigger Date ('Trigger Date") is available, then valuation would be done to maturity price. In case one Trigger Date is available, then valuation would be done as to the said Trigger Date. In case both Trigger Dates are available, then valuation would be done to the earliest date.

d) If a put option is not exercised by a Mutual Fund when exercising such put option would have been in favour of the scheme, in such cases the justification for not exercising the put option shall be provided to the Board of AMC and Trustees.

e) Any put option inserted subsequent to the issuance of the security shall not be considered for the purpose of valuation and original terms of the issue will be considered for valuation.

4. **Government Securities**

Government Securities includes: i) Central Government Securities (G-Sec) ii) State Government Securities / State Development Loans (SDL) iii) Treasury Bills (T-Bills) iv) Cash Management Bills (CMB)

Irrespective of the residual maturity, Government Securities (including T-bills) shall be valued at average of security level prices obtained from valuation agencies appointed by AMFI.

In case security level prices given by valuation agencies are not available for a new security (which is currently not held by any Mutual Fund), then such security may be valued at purchase yield on the date of allotment / purchase.

5. **Valuation of market linked debentures and all OTC derivatives including Interest Rate Swaps (IRS) / Forward Rate Agreements (FRA)**

Irrespective of the residual maturity, valued at average of security level prices obtained from valuation agencies appointed by AMFI.

6. **Valuation Policy on Interest Rate Futures (IRF)**

The Interest Rate Futures (IRF) would be valued at the daily settlement price of the exchange.

7. **Treatment of Upfront Fees on Trades**

a) Upfront fees on all trades (including primary market trades), by whatever name and manner called, would be considered by the valuation agencies for the purpose of valuation of security.

b) Details of such upfront fees should be shared by the AMC on the trade date to the valuation agencies as part of the trade reporting to enable them to arrve at the fair valuation for that date.

c) For the purpose of accounting, such upfront fees should be reduced from the cost of the investment in the scheme that made the investment.

d) In case upfront fees are received across multiple schemes, the such upfront fees should be shared on a pro-rata basis across such schemes.

8. Use of Own Trade for Valuation

Mutual Fund's own trades shall not be used for valuation of debt and money market securities and for Inter-Scheme Transfers.

9. Waterfall approach for valuation of money market and debt securities:

SEBI, vide circular no. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019 on Valuation of money market and debt securities, has laid down broad principles to be adopted as part of the waterfall approach, for arriving at the security level prices.

Paragraph 2.1 of the aforesaid SEBI circular prescribes that AMFI shall ensure that valuation agencies have a documented waterfall approach for valuation of money market and debt securities.In this regard, AMFI identified and issued standard guidelines for following areas.

1. Waterfall mechanism for valuation of money market and debt securities.
2. Definition of tenure buckets for similar maturity
3. Process for determination of similar issuer
4. Recognition of trades and outlier criteria
5. Process for construction of spread matrix

The "AMFI GUIDELINES ON VALUATION APPROACH FOR TRADED AND NON-TRADED MONEY MARKET AND DEBT SECURITIES" issued vide AMFI Best Practice Circular No.83 / 2019-20 dated November 18, 2019 are enclosed as Annexure 1 to this policy.

In accordance with paragraph 2.2.5 of the aforesaid SEBI circular prescribe AMFI has prescribed guidelines on polling valuation agencies and on the responsibilities of Mutual Funds in the polling process, as part of aforesaid waterfall approach. These guidelines are enclosed as Annexure 2 of this policy.

10. Valuation of Tri-Party Repo (TREPS)

a) **TREPS with residual maturity of over 30 days**

Valued at average of security level prices obtained from valuation agencies appointed by AMFI.

In case security level prices given by valuation agencies are not available for a new TREPS (which is currently not held by any Mutual Fund), then such TREPS may be valued at purchase yield on the date of purchase.

b) **TREPS with residual maturity of upto 30 days**

Valued at cost plus accrual basis.

11. Valuation of Reverse Repo (including Corporate Reverse Repo)

a) **Reverse Repo with residual maturity of over 30 days**

Valued at average of security level prices obtained from valuation agencies appointed by AMFI.

In case security level prices given by valuation agencies are not available for a new Reverse Repo (which is currently not held by any Mutual Fund), then such Reverse Repo may be valued at purchase yield on the date of purchase.

b) **Reverse Repo with residual maturity of upto 30 days**

Valued at cost plus accrual basis.

Note: All securities taken under Reverse Repo will not be considered for valuation. Only the interest income earned would be considered for NAV calculation.

12. Valuation of Fixed Deposits /short term deposits with banks (pending deployment)

Fixed Deposits/short term deposits with banks (pending deployment) will be valued at cost plus accrual basis.

13. Valuation of convertible debentures, bonds and warrants

In respect of convertible debentures and bonds, the non-convertible and convertible components shall be valued separately. The non-convertible component should be valued on the same basis as would be applicable to a debt instrument. The convertible component should be valued on the same basis as would be applicable to an equity instrument. If, after conversion the resultant equity instrument would be traded pari passu with an existing instrument which is traded, the value of the latter instrument can be adopted after an appropriate discount of the non-tradability of the instrument during the period preceding the conversion. While valuing such instruments, the fact whether the conversion is optional should also be factored inFor this purpose,the cost split between convertible part and non-convertible part,rate of discount to be applied on convertible part and assigning the weights to the options available will be decided by the valuation committee on case to case basis.

In respect of warrants to subscribe for shares attached to instruments, the warrants can be valued at the value of the share which would be obtained on exercise of the warrant as reduced by the amount which would be payable on exercise of the warrant. A discount similar to the discount to be determined in respect of convertible debentures [as referred to above] must be deducted to account for the period which must elapse before the warrant can be exercised;

14. Valuation of Futures contract including interest rate derivatives contract

The valuation will be based on the settlement price of the futures contract published by the stock Exchanges on daily basis. MTM loss or gain will be booked on daily basis.

15. Valuation of Infrastructure Investment Trust (InvITs) & Real Estate Investment Trust (ReITs)

i. On valuation day, traded Units of InvIT/ReITs are to be valued at the Last quoted closing price on the principal stock exchange
ii. When on a particular valuation day, units of InvIT/ReITs has not been traded on the principal stock exchange; the value at which it is traded on secondaty stock exchange may be used
iii. When units of InvIT/ReITs is not traded on any stock exchange on a particular valuation day, the value at which it was traded on the principal stock exchange or any other stock exchange, as the case maybe, on the earliest previous day may be used provided such date is not more than 30 days prior to valuation date
iv. Where units of InvIT/ReITs are not traded on any stock exchange for continuous period of 30 days than the valuation for such units of InvIT/ ReITs will be determined based on the

price provided by an independent valuation agency(ies) or at latest NAV declared by Investment managers of the trust, as the case maybe. The selection of the independent valuation agency(ies) will be approved by the Valuation Committee.

v. Where the valuation of Units of InvIT/ReITs is not available from any independent valuation agency(ies), the valuation will be determined by the Fund Manager on the principles of fair valuation.

16. Deviation from valuation guidelines

a) As per the Principles of Fair Valuation specified in Eighth Schedule of SEBI (Mutual Funds) Regulations, 1996, AMCs are responsible for true and fairness of valuation and correct NAV. Considering the same, in case an AMC decides to deviate from the valuation price given by the valuation agencies, the detailed rationale for each instance of deviation shall be recorded by the AMC.

b) The rationale for deviation along-with details such as information about the security (ISIN, issuer name, rating etc.), price at which the security was valued vis-a-vis the price as per the valuation agencies and the impact of such deviation on scheme NAV (in amount and percentage terms) shall be reported to the Board of AMC and Trustees.

c) The rationale for deviation along-with details as mentioned under paragraph (b) above shall be disclosed immediately and prominently, under a separate head on the website of AMC.

d) Further, while disclosing the total number of instances of deviation in the monthly and half yearly portfolio statements, AMCs shall also provide the exact link to their website for accessing the information mentioned at paragraph (C) above.

17. Valuation of money market and debt securities which are rated "Below Investment Grade" or "Default"

a) All money market and debt securities which are rated below investment grade shall be valued at the price provided by valuation agencies as appointed by AMFI.

b) Till such time the valuation agencies compute the valuation of money market and debt securities classified as below investment grade, such securities shall be valued on the basis of indicative haircuts provided by these agencies as listed in the table below. These indicative haircuts shall be applied on the date of credit event i.e. migration of the security to sub investment grade and shall continue till the valuation agencies compute the valuation price of such securities.

Trade Price for valuation

c) In case of trades during the interim period between date of credit event and receipt of valuation price from valuation agencies, AMC shall consider such traded price for valuation if it is lower than the price post standard haircut. The said traded price shall be considered for valuation till the valuation price is determined by the valuation agencies.

d) In case of trades after the valuation price is computed by the valuation agencies as referred above and where the traded price is lower than such computed price, such traded price shall be considered for the purpose of valuation and the valuation price may be revised accordingly.

e) The trades referred above shall be of a minimum size as determined by valuation agencies.

AMC right to deviate from the indicative haircut and/or the valuation price provided by the valuation agencies

f) AMC may deviate from the indicative haircuts and/or the valuation price for money market and debt securities rated below investment grade provided by the valuation agencies subject to the following:

i) The detailed rationale for deviation from the price post haircuts or the price provided by the valuation agencies shall be recorded by the AMC.

ii) The rationale for deviation along-with details such as information about the security (ISIN, issuer name, rating etc.), price at which the security was valued vis-a-vis the price post haircuts or the average of the price provided by the valuation agencies (as applicable) and the impact of such deviation on scheme NAV (in amount and percentage terms) shall be reported to the Board of AMC and Trustees .

iii) The rationale for deviation along-with details as mentioned at para above shall also be disclosed to investors. In this regard, AMC shall immediately disclose instances of deviations under a separate head on their website. Further, the total number of such instances shall also be disclosed in the monthly and half-yearly portfolio statements for the relevant period along-with an exact link to the website wherein the details of all such instances of deviation are available.

Treatment of accrued interest and future interest accrual

g) The indicative haircut that has been applied to the principal should be applied to any accrued interest.

h) In case of securities classified as below investment grade but not default, interest accrual may continue with the same haircut applied to the principal. In case of securities classified as default, no further interest accrual shall be made.

i) In case the valuation agencies has adopted conservative rating (say “D” rating) than the rating given by the Credit Rating Agency (say “C” rating) for valuation of security, the rating adopted by the valuation agencies (i.e. “D” rating) shall be considered for the purpose of accrued interest and future interest accrual.

Treatment of any future recovery in terms of principal or interest

j) Any recovery shall first be adjusted against the outstanding interest recognized in the NAV and any balance shall be adjusted against the value of principal recognized in the NAV.

k) Any recovery in excess of the carried value (i.e. the value recognized in NAV) should then be applied first towards amount of interest written off and then towards amount of principal written off.

Disclosure in portfolio statement

l) An asterisk mark / suitable mark should be given against money market and debt securities which are rated “Below Investment Grade” or “Default”.

m) If a security is in default beyond its maturity date, then disclosure to this effect shall be provided. Such disclosure shall include details of the security including ISIN, name of security, value of the security considered under net receivables (i.e. value recognized in NAV in absolute terms and as % to NAV) and total amount (including principal and interest) that is due to the scheme on that investment. Further, this disclosure shall continue till the value of the security recognized in the NAV is received or for a period of 3 years from the date of maturity of security, whichever is later.

Haircut Table:

Standard haircut for sub-investment grade debt securities provided by valuation agencies and finalized by the AMFI Valuation Committee are as follow:

1. **Haircuts for senior, secured securities**

Rating/ Sector	Infrastructure, Real Estate, Hotels, Loan against shares and Hospitals	Other Manufacturing and Financial Institutions	Trading, Gems & Jewellery and Others
BB	15%	20%	25%
B	25%	40%	50%
C	35%	55%	70%
D	50%	75%	100%

2. Haircuts on subordinated and unsecured (or both) securities

Rating/ Sector	Infrastructure, Real Estate, Hotels, Loan against shares and Hospitals	Other Manufacturing and Financial Institutions	Trading, Gems & Jewellery and Others
BB	25%	25%	25%
B	50%	50%	50%
C	70%	70%	70%
D	100%	100%	100%

B. Inter-Scheme Transfers (IST)

As per the regulations of SEBI contained in the seventh schedule of the SEBI (Mutual Funds) Regulations 1996, transfer of investments from one scheme to another scheme in the same mutual fund shall be allowed only if:

a) Such transfers are done at the prevailing market price for quoted instruments on spot basis;

b) The securities so transferred shall be in conformity with the investment objective of the scheme to which such transfer has been made.

Equity Securities:

Inter-scheme transfer of equity securities would be effected at the prevailing spot market price of the security at the time the transfer is effected.

For this purpose, at the time of effecting the inter-scheme transfer, a record of the prices for the security quoted in the relative stock exchange (i.e. NSE/BSE) or Bloomberg Terminal in which it is traded or reported would be obtained, which would indicate the date, time and the currently quoted price. The price given in the quotation of the stock exchange would be the effective price for the inter-scheme transfer.

Money Market and Debt Securities:

a) IST of any money market or debt security (irrespective of maturity) will be done at an average of the prices provided by the valuation agencies, if prices from the valuation agencies are received within the pre-agreed turn-around-time (TAT).

b) If price from only one valuation agency is received within the agreed TAT, that price will be used for IST pricing.

c) If prices are not received from any of the valuation agencies within the agreed TAT, Valuation Committee will determine the price for the IST as per the available information, in accordance with Clause 3 (a) of Seventh Schedule of SEBI (Mutual Funds) Regulations, 1996

Treatment and disposal of illiquid securities or securities classified as default at the time of maturity / closure of schemes

In case of close-ended schemes, some of the investments made by Mutual Funds may become default at the time of maturity of schemes. Further, at the time of winding up of a scheme, some of the investments made by Mutual Funds may become default or illiquid. In due course of time i.e. after the maturity or winding up of the schemes, such investments may be realised by the Mutual Funds. Such amount will be distributed to the concerned investors, if it is substantial. In case the amount is not substantial, it will be used for the purpose of investor education. The decision as to the determination of substantial amount shall be taken by the Trustees of Mutual Funds after considering the relevant factors including number of investors, amount recovered, cost of transferring funds to investors; among others.

Changes in terms of investment:

As per the SEBI circular dated September 24, 2019 while making any change to terms of an investment, Mutual Funds shall adhere to the following conditions:

a) Any changes to the terms of investment, which may have an impact on valuation, shall be reported to the valuation agencies immediately.

b) Any extension in the maturity of a money market or debt security shall result in the security being treated as “Default”, for the purpose of valuation.

c) If the maturity date of a money market or debt security is shortened and then subsequently extended, the security shall be treated as "Default" for the purpose of valuation.

d) Any put option inserted subsequent to the issuance of the security shall not be considered for the purpose of valuation and original terms of the issue will be considered for valuation.

C. Valuation of Gold Investments

The gold held by a gold exchange traded fund scheme shall be valued at the AM fixing price of London Bullion Market Association (LBMA) in US dollars per troy ounce for gold having a fineness of 1 kg gold of 0.995, subject to the following:

(a) adjustment for conversion to metric measure as per standard conversion rates;
(b) adjustment for conversion of US dollars into Indian rupees as per the RBI reference rate declared by the Foreign Exchange Dealers Association of India (FEDAI); and
(c) Addition of-
(i) transportation and other charges that may be normally incurred in bringing such gold from London to the place where it is actually stored on behalf of the mutual fund; and
(ii) notional customs duty and other applicable taxes and levies that may be normally incurred to bring the gold from the London to the place where it is actually stored on behalf of the mutual fund;

Provided that the adjustment under clause (c) above may be made on the basis of a notional premium that is usually charged for delivery of gold to the place where it is stored on behalf of the mutual fund;

Provided further that where the gold held by a gold exchange traded fund scheme has a greater fineness, the relevant LBMA prices of AM fixing shall be taken as the reference price under this sub-paragraph.

If the gold acquired by the gold exchange traded fund scheme is not in the form of standard bars, it shall be assayed and converted into standard bars which comply with the good delivery norms of the LBMA and thereafter valued in terms of sub-paragraph (1). "If on any day the LBMA AM fixing or RBI reference rate is not available due to holiday, then the immediately previous day's prices are applied for the purpose of calculating the value of gold."

D. Valuation of Mutual Fund Units (Including units of ETF)

i) Mutual Fund units listed and traded on exchange (NSE or BSE) on valuation date would be valued at closing traded price as on the valuation date.

ii) Unlisted Mutual Fund units or Mutual Fund units listed but not traded on valuation date would be valued at the last available NAV as per AMFI website.

E. Valuation of Gold Monetisation Schemes

Principal investment in Gold Monetisation Schemes (GMS) by IDBI Gold Exchange Traded Fund will be valued at the price of physical gold, while interest income will be valued on accrual basis

Guidelines for investments in partly paid debentures

Following guidelines issued by AMFI in its best practice guidelines circular dated November 18, 2019, as per the SEBI Circular dated September 24, 2019 will be followed for investments in partly paid debentures:

1. Mutual Fund schemes shall make investment in partly paid debenture only when payment of the remaining amount is linked to clear, pre-defined events (i.e. subject to conditions precedent). For avoidance of doubt any event which is purely time based shall not be considered as a pre-defined events. Such conditions precedent should be clearly outlined in the Agreement for subscription of the debentures / Offer Document for the issue, as the case may be. Conditions precedent mean the clearly defined obligations / events that need to be fulfilled before calling upon the investor to make payment for the remaining portion of the subscription. Such obligations / events, to name a few, could include, achievement of certain milestones linked with the object for which the debentures were issued or linked to the enhancement of credit rating of the issuer or linked to other financial or operating parameters of the Issuer or linked to the happening of an event. The AMC shall not resort to the practice of investing in partly paid debentures without any condition precedent.

2. There should not be any linkages across schemes while investing in partly paid debentures. For example: if the agreement for partly paid debentures also envisages investment in any other type of instrument such as a commercial paper then the AMC should ensure that subscription to the residual part of the issue / the investment in the other instrument is made by the scheme which made the original investment in partly paid debentures.

3. While investing in partly paid debentures, the AMC shall ensure that interest of one set of unit holders / schemes is not compromised at the cost of another.

4. All regulatory limits shall be complied with at the time of each such part payment.

5. In order to avoid a situation where a MF scheme is unable to honor future part payments, the AMC shall avoid excessive concentration in partly paid debentures.

6. Any investment in partly paid debentures shall be disclosed in the monthly portfolio disclosures of the scheme. This will include, inter-alia, the amount that has been contracted but not yet paid by the scheme, the dates of such future pay-ins, triggers for future pay-ins as well as any other detail that the AMC may consider is of material interest to its investors.

F. Valuation of Equity / Equity Related Securities

Valuation of Equity Shares

1. Traded Securities

i) On a valuation day, traded securities are to be valued at the last quoted closing price on the principal stock exchange.

ii) When on a particular valuation day, a security has not been traded on the principal stock exchange; the value at which it is traded on secondary stock exchange may be used.

iii) When a security is not traded on any stock exchange on a particular valuation day, the value at which it was traded on the principal stock exchange or any other stock exchange, as the case may be, on the earliest previous day may be used provided such date is not more than 30 days prior to valuation date.

iv) On a valuation day, ETFs and Index Funds are to be valued at the last quoted closing price on the stock exchange of the underlying index.

2. Thinly Traded / Non-Traded Securities

Thinly Traded / Non-Traded securities are valued in “good faith” on the basis of the valuation principles laid down below:

i) Based on the latest available Balance Sheet, Net Worth shall be calculated as follows:

Net Worth per share = [share capital + reserves (excluding revaluation reserves) – Miscellaneous expenditure and Debit Balance in P&L A/c] Divided by Number of Paid up Shares.

ii) Average capitalisation rate (P/E ratio) for the industry based on either NSE or BSE data shall be taken and discounted by 75% i.e. only 25% of the industry average P/E shall be taken as Capitalization rate (P/E ratio). Earnings per share of the latest audited annual accounts will be consistently considered for this purpose.

iii) The value as per the Net Worth value per share and the Capital Earning value calculated as above shall be averaged and further discounted by 10% for illiquidity so as to arrive at the fair value per share.

3. Unlisted Securities

Unlisted equity shares of a company shall be valued "in good faith" on the basis of the valuation principles laid down below:

i) Based on the latest available Audited Balance Sheet, Net Worth shall be calculated as lower of (1) and (2) below:

1. Net Worth per share = [share capital + free reserves (excluding revaluation reserves) - Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses] divided by Number of Paid up Shares.

2. After taking into account the outstanding warrants and options, Net Worth per share shall again be calculated and shall be = [share capital + consideration on exercise of Option/Warrants received/receivable by the Company + free reserves (excluding revaluation reserves) - Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses] divided by Number of Paid up Shares plus Number of Shares that would be obtained on conversion/exercise of Outstanding Warrants and Options.

3. The lower of (1) and (2) above shall be used for calculation of Net Worth per share and for further calculation in (iii) below.

ii) Average capitalisation rate (P/E ratio) for the industry based upon either NSE or BSE data shall be taken and discounted by 75% i.e. only 25% of the Industry average P/E shall be taken as capitalisation rate (P/E ratio). Earnings per share of the latest audited annual accounts will be considered for this purpose.

iii) The value as per the Net Worth value per share and the Capital Earning value calculated as above shall be averaged and further discounted by 15% for illiquidity so as to arrive at the fair value per share.

The above valuation methodology for Thinly Traded, Non-Traded and Unlisted Securities shall be subject to the following conditions:

- All calculation shall be based on audited accounts.

- If the latest Balance Sheet of the company is not available within nine months from the close of the year, unless the accounting year is changed, the shares of such companies shall be valued at zero.

- If the Net Worth of company is negative, the shares of such companies shall be valued at zero.

- In case the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalised earning.

- In case an individual security accounts for more than 5% of the total assets of the scheme, an independent valuer shall be appointed for the valuation of the said security. To determine if a security accounts for more than 5% of the total assets of the scheme, it shall be valued by the procedure above and the proportion which it bears to the total net assets of the scheme to which it belongs will be compared on the date of valuation.

- At the discretion of the AMC and with the approval of the Trustees, an unlisted equity share may be valued at a price lower than the value derived using the aforesaid methodology.

4. **Valuation of Partly Paid-up Equity Shares**

a) **Traded Securities**: In case the party paid-up equity shares are traded separately they would be valued as per the valuation guidelines applicable to any other equity shares.

b) **Thinly traded / Non-traded / Unlisted Securities**:

i. The partly paid-up equity shares will be valued at lower of the following two prices:

- Value of the underlying fully paid-up equity shares as reduced by the amount of balance call money payable.
- Value of the partly paid-up equity shares, if traded on the valuation day. If not traded on any stock exchange on a particular valuation day, the value at which it was traded on the earliest previous day may be used provided such date is not more than 30 days prior to valuation date

ii. Valuation guidelines related to equity shares would be applicable for the valuation of underlying fully paid-up equity shares.

iii. In case the trade price of the partly paid-up equity shares were not available for last 30 days or in case of unlisted partly paid-up equity shares, it will be valued at the value of the underlying fully paid-up equity shares as reduced by the amount of balance call money payable.

5. **Valuation of Warrants**

i. **Traded Securities**

In case the warrants are traded separately they would be valued as per the valuation guidelines applicable to equity shares.

ii. **Thinly Traded / Non-Traded / Unlisted Securities**

a) In respect of warrants to subscribe for equity shares attached to instruments, the warrants would be valued at the value of the equity share which would be obtained on exercise of the warrant as reduced by the amount which would be payable on exercise of the warrant.
b) Valuation guidelines related to equity shares would be applicable for the valuation of underlying equity shares.
c) An appropriate discount for non-tradability of the equity shares shall be deducted to account for the period which must elapse before the warrant can be exercised.

6. **Valuation of Preference Shares**

i. **Traded Securities**

In case the preference shares are qualified as traded then they would be valued as per the valuation guidelines applicable to equity shares.

ii. **Thinly Traded / Non-Traded / Unlisted Securities**

a) Redeemable Preference Shares would be valued on the basis of norms governing the valuation of Non-Convertible Debentures and Bonds under valuation of Debt Security category.
b) Convertible Preference shares would be valued at the value of the equity share which would be obtained on conversion. Valuation guidelines related to equity shares would be applicable for the valuation of underlying equity shares. An appropriate discount for non-tradability of the equity shares shall be deducted to account for the period which must elapse before the conversion can be exercised.
c) The valuation committee may in specific cases decide to use a different method for valuation of preference shares by assigning reasons therefor.

7. **Valuation of Convertible Debentures**

i. **Traded Securities**

In case the convertible debentures are qualified as traded then they would be valued as per the valuation guidelines applicable to equity shares and valued at cum-interest trade price.

ii. Thinly Traded / Non-Traded / Unlisted Securities

Non-Convertible and Convertible components would be valued separately.

a) Non-Convertible component would be valued on the basis of norms governing the valuation of Non-Convertible Debentures and Bonds under valuation of Debt Security category.

b) Convertible component would be valued at the value of the equity share which would be obtained on conversion. Valuation guidelines related to equity shares would be applicable for the valuation of underlying equity shares. An appropriate discount for non-tradability of the equity shares would be deducted to account for the period which must elapse before the conversion can be exercised.

8. <u>Valuation of Rights Entitlement</u>

i. Where it is decided not to subscribe to the right but to renounce them and renunciations are being traded, the rights can be valued at the renunciation value.

ii. The value of the “rights” shares should be calculated as:

- Until, rights are traded, or
- after the expiry of trading window on the exchange and rights are not renounced till that date,

Vr = n/m * (Pex - Pof)

Where,
Vr = Value of rights
n = No. of rights offered
m = No. of original shares held
Pex = Ex-rights price
Pof = Rights Offer Price

iii. Ex-right price of underline security will be considered separately for each valuation day.

iv. In case the offer price is higher than the Ex-right price then the rights would be valued at Zero.

v. If the rights are on non-traded shares or unlisted shares then the rights would be valued at Zero.

vi. The above valuation price would be used till the date of allotment of shares. From the date of allotment, Valuation guidelines related to equity shares would be applicable for the allotted equity shares.

9. **Valuation of QIP (Qualified Institutional Placement – Equity Shares)**

The equity shares allotted through QIP process should be considered on the same lines as the existing listed equity shares and hence should be valued at the market/traded price of the existing listed equity shares.

10. **Valuation of Initial Public Offering (IPO) Allotment**

Securities awaiting Listing on account of IPO is to be valued at allotment price

11. **Valuation of Suspended Security**

i. In case trading in an equity security is suspended upto 30 days, then the last traded price would be considered for valuation of that security.
ii. If an equity security is suspended for more than 30 days, then the fair valuation of Thinly Traded / Non-Traded Security as above would be applied.

12. **Valuation of Illiquid Security**

Illiquid securities shall be valued in good faith. Aggregate value of "illiquid securities" of scheme, which are defined as non-traded, thinly traded and unlisted equity shares, shall not exceed 15% of the total assets of the scheme and any illiquid securities held above 15% of the total assets shall be assigned Zero value.

Corporate Action

13. **Valuation of Shares on Demerger, Merger, Buy-Back and Scheme of Arrangement**
De-merger, Merger, Amalgamation and Scheme of Arrangement

On corporate action, above valuation guidelines may be difficult to adopt due to non-availability of the Balance Sheet of the restructured entities in public domain or the resultant securities come up for listing after few days while the valuation required to be carried out effective on the date of the corporate action itself. Besides, in such case there are generally no comparative parameters readily available for carrying out the valuation exercise. Following broad valuation guidelines would be used for the valuation of securities resulting from the corporate actions:

a) De-Merger

i) In case shares of both the companies (De-merged Company and Resulting Companies) are traded immediately on de-merger, both the shares would be valued at respective traded prices.

ii) In case there is only one Resulting Company along with the De-merged Company and such Resulting Company is unlisted / non-traded:

Traded shares of De-merged Company will be valued at traded price and the shares of Resulting Company will be valued by residual price methodology which would be the closing value of the shares of De-merged Company on the day before the de-merger less opening value of the shares of De-merged Company immediately post de-merger.

If value of the shares of De-merged Company is equal or in excess of the value of pre demerger shares, then the shares of Resulting Company will be valued at Zero.

iii) In case there are more than one Resulting Companies along with the De-merged Company and all or some Resulting Companies are unlisted / non-traded:

The shares of Resulting Companies will be valued by residual price methodology as explained in point (ii) above. The residual value will be allocated into Resulting Companies in the ratio provided as a part of scheme of arrangement or such other ratio as decided by the Valuation Committee. If one of the Resulting Companies is listed / traded, the residual value of unlisted / non-traded Resulting Companies would be further determined by reducing the traded value of listed Resulting Companies from the residual value computed as above.

iv) In case shares of both the companies (De-merged Company and Resulting Companies) are not traded on de-merger:

The traded value of the De-merged Company on the day before the de-merger will be allocated between De-merged Company and Resulting Companies in the ratio provided as a part of scheme of arrangement or such other ratio as decided by the Valuation Committee.

v) Cost allocation would be done proportionate to the derived value of the resultant scrips or other appropriate basis to be decided on case to case basis depending on the terms of demerger.

vi) The valuation committee may in specific cases decide to use a different method for valuation by assigning reasons therefor.

b) Merger

In case of merger, if the shares of the merged entity are not listed / traded, then valuation of the merged entity will be decided on case to case basis depending on the terms of merger and may be valued at previous day closing price of the respective companies prior to merger.

Buy-back of Securities

If a company offers to buy-back hundred percent of the shares tendered then shares will be valued at the price of buy-back and ignoring the market price. Else, market price of the shares will be considered for valuation till formal confirmation of acceptance of shares tendered under the buyback schemes. Quantum of shares accepted under buy-back will be accounted as a sale trade.

Stock Split/ Face value change

In case of stock split, the face value of a stock is reduced and proportionately number of shares is increased. The valuation price will be derived on the basis of the closing price before the ex-date and adjusted in proportion of stock split, till the new stock split shares are listed and traded on a stock exchange. The cost of one share will be proportionately adjusted in line with stock split change, to derive the new cost of share. On stock split/face value change, in case the company specifies any regulations/ method for cost bifurcation or valuation the same will be adopted.

14. Valuation of Futures and Options

i) On the valuation day, settlement price will be considered for valuation.

ii) If the settlement price is not available, then closing price for the security will be considered for the valuation.

iii) In case of Futures MTM is computed on daily basis.

iv) MTM Gain/Loss = Current day settlement/Closing price- Previous day settlement/Closing price (If scrip is purchased first time then it is a Current day settlement / Closing price- Weighted Average Price (WAP)).

v) MTM is computed on scrip wise and series wise.

15. Valuation of Securities Lent under Securities Lending Scheme

The valuation of securities lent under Securities Lending Scheme shall be valued as per the valuation guideline of the respective security as mentioned in this document. The lending fees received for the securities lent out would be accrued in a proportionate manner till maturity of the contract.

16. Valuation of Indian Depositories Receipts (IDR)

Valuation of IDRs listed on the India Stock Exchange would follow the valuation guidelines adopted for the Listed Indian Equity Shares. In case the IDRs are classified as thinly traded / non-traded, the criteria, as laid above for Listed Indian Equity Shares shall be applied taking into consideration the relevant Company's Balance Sheet.

17. Valuation of American Depository Receipt (ADR), Global Depository Receipt (GDR) and all Overseas Securities

a) Traded Securities

i) Traded foreign securities will be valued at latest available closing price of the stock exchange on which the security is traded.

ii) In case the security is traded on more than one stock exchange, the security will be valued at the latest available closing price of the principal stock exchange. Principal stock exchange will be decided by the AMC at the time of purchase of securities and the reason for the selection will be recorded in writing. Any subsequent change in principal stock exchange selected for valuation will be necessarily backed by reasons for such change being recorded in writing by the AMC and approved by the Valuation Committee.

iii) When on a particular valuation day, a security has not been traded on the principal stock exchange; the value at which it is traded on secondary stock exchange may be used.

iv) When a security is not traded on any stock exchange on a particular valuation day, the value at which it was traded on the principal stock exchange or any other stock exchange, as the case may be, on the earliest previous day may be used provided such date is not more than 30 days prior to valuation date.

v) Due to differences in the time zones across different markets, the AMC would consider a cut off time of 5.00 PM (IST) for availability of the closing market price for the purpose of valuation i.e. if any market closes on or before 5.00 pm (IST) that day's last closing price will be considered for valuation else the previous day's closing price of that stock exchange will be considered. Accordingly, the valuation of the securities will be done based on T day prices or T-1 day prices, depending upon the closure of business hours of the stock exchange on which the particular securities are traded / listed.

vi) The price in local currency would be obtained and the closing RBI reference rate would be used to calculate the closing price in INR. If the security is listed in currency for which

RBI reference rate is not available, the exchange rate available on Bloomberg/Reuter's would be considered. In case the direct exchange rates are not available on Bloomberg/Reuter's, then cross currency with USD would be considered and converted as per INR/USD RBI reference rate.

b) Non-Traded Securities

A non-traded foreign security will be valued by the AMC using the principles of fair valuation after considering relevant factors on case to case basis.

In case of any extra-ordinary event in other markets post the closure of the relevant markets, the AMC will value the security at suitable fair value as determined by the Valuation Committee.

All the corporate action for foreign securities will be recorded on the same basis as valuation of foreign securities by considering a cut off time of 5.00 PM (IST). The corporate action of the securities will be recorded on T day or T+1 day, depending upon the closure of business hours of the stock exchange on which the particular securities are traded / listed.

G. Exceptional Events

Exceptional Events are such events where market quotations are no longer reliable for particular security/securities. Such events or situations may be temporary in nature and could be due to any Force Majeure Event including operational, geo political, macroeconomic, disruptive events impacting the capital markets/economy as a whole. However, if such event is a result of news having long term impact on the economy, the same will not be treated as an exceptional event. The onus for defining/declaring a situation/time period as an exceptional business situation will be on Valuation Committee.

The Board of AMC and Trustee authorize the Valuation Committee to determine the exceptional events and devise the process to deal with the exceptional events. Given the exceptional nature of the events, it is not possible to define a standard methodology to be adopted for fair valuation of securities/assets for such events.

The Valuation Committee shall identify and monitor exceptional events and recommend appropriate procedures / methodologies with necessary guidance from the Board of AMC and Trustee, wherever required, and get the same ratified.

The illustrative list of exceptional events is provided as under:
The Exceptional events where current market information may not be available / sufficient for valuation of securities are classified as under:

a. Major Policy announcements by Central Government, State Government, SEBI or RBIGeo-political situations (Natural disasters, terror attacks, public disturbances, riots, wars) that may force the market to function abnormally.
b. Absence of trading in a specific security or similar securities.
c. Significant volatility in the capital markets.
d. Default of any securities.
e. Sufficient market information may not available for the valuation of security
f. Valuation agencies do not provide valuation of securities
g. Deviation from the indicative haircuts and/or the valuation price
h.

The events mentioned above are only indicative and may not reflect all possible exceptional events or circumstances.

Note:
1. Any change/modification to the above list of exceptional events shall be updated from time to time.
2. The Valuation Committee shall identify and monitor the exceptional events and recommend appropriate procedures/methodologies with necessary guidance from the Board of AMC and Trustee, wherever required, and get the same ratified.

H. Securities not covered in the policy

In case of security/ies purchased by the fund does not fall within the current framework of the valuation of securities then the same shall be reported immediately to AMFI. Further, at the time of investment AMC shall ensure that the total exposure in such securities does not exceed 5% of the total AUM of the scheme.

I. Matters not specifically covered in the policy

All matters regarding valuation of securities, which are not specifically covered in this policy, shall be governed under Chapter 9 of the Master Circular for Mutual Funds issued by SEBI on May 11, 2012 and investment valuation norms mentioned in eighth schedule of Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 and amendments thereof.

J. Conflict of interest

The Implementation of valuation policy and methodologies as adopted/authorized by the Board of AMC and Trustee shall be subject to review by Valuation Committee. The Valuation Committee will be responsible for addressing areas of Conflict of interest and there in recommend changes, if any, in policy/methodology. The same shall be ratified with the Board of AMC and Trustee.

K. Maintenance of documentation

Documentation of rationale for valuation including inter scheme transfers shall be maintained and preserved by the asset management company as per regulation 50 of these regulations to enable audit trail.

L. Right of the AMC to deviate from the guidelines

As per the Principles of Fair Valuation specified in Eighth Schedule of SEBI (Mutual Funds) Regulations, 1996, AMCs are responsible for true and fairness of valuation and correct NAV.

1. In case an AMC decides to deviate from the valuation price given by the valuation agencies, the detailed rationale for each instance of deviation shall be recorded by the AMC.

2. The rationale for deviation along-with details such as information about the security (ISIN, issuer name, rating etc.), price at which the security was valued vis-a-vis the price as per the valuation agencies and the impact of such deviation on scheme NAV (in amount and percentage terms) shall be reported to the Board of AMC and Trustees.

3.The rationale for deviation along-with details as mentioned above shall be disclosed immediately and prominently, under a separate head on the website of AMC. Further, while disclosing the total number of instances of deviation in the monthly and half-yearly portfolio statements, AMCs shall also provide the exact link to their website for accessing the information mentioned in this paragraph.

M. Annexure - 1

Waterfall Mechanism for valuation of money market and debt securities :

Pursuant to SEBI circular no. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019, the AMFI appointed valuation agencies shall follow a waterfall approach for the valuation of money market and debt securities as prescribed by AMFI in consultation with SEBI. Accordingly, AMFI has issued the following standard guidelines:

Part A: Valuation of Money Market and Debt Securities other than G-Secs

1. **The following shall be the broad sequence of the waterfall for valuation of money market and debt securities:**

i. Volume Weighted Average Yield (VWAY) of primary reissuances of the same ISIN (whether through book building or fixed price) and secondary trades in the same ISIN
ii. VWAY of primary issuances through book building of same issuer, similar maturity (Refer Note 1 below)
iii. VWAY of secondary trades of same issuer, similar maturity
iv. VWAY of primary issuances through fixed price auction of same issuer, similar maturity
v. VWAY of primary issuances through book building of similar issuer, similar maturity (Refer Note 1 below)
vi. VWAY of secondary trades of similar issuer, similar maturity.
vii. VWAY of primary issuance through fixed price auction of similar issuer, similar maturity
viii. Construction of matrix (polling may also be used for matrix construction)
ix. In case of exceptional circumstances, polling for security level valuation (Refer Note 2 below)

Note 1

Except for primary issuance through book building, polling shall be conducted to identify outlier trades. However, in case of any issuance through book building which is less than INR 100 Cr, polling shall be conducted to identify outlier trades.

Note 2

Some examples of exceptional circumstance would be stale spreads, any event/news in particular sector/issuer, rating changes, high volatility, corporate action or such other event as may be considered by valuation agencies. Here stale spreads are defined as spreads of issuer which were not reviewed/updated through trades/primary/polls in same or similar security/issuers of same/similar maturities in waterfall approach in last 6 months.

Further, the exact details and reasons for the exceptional circumstances which led to polling shall be documented and reported to AMCs. Further, a record of all such instances shall be maintained by AMCs and shall be subject to verification during SEBI inspections.

Note 3

All trades on stock exchanges and trades reported on trade reporting platforms till end of trade reporting time (excluding Inter-scheme transfers) should be considered for valuation on that day.

Note4

It is understood that there are certain exceptional events, occurrence of which during market hours may lead to significant change in the yield of the debt securities. Hence, such exceptional events need to be factored in while calculating the price of the securities. Thus, for the purpose of calculation of VWAY of trades and identification of outliers, on the day of such exceptional events, rather than considering whole day trades, only those trades shall be considered which have occurred post the event (on the same day).

The following events would be considered exceptional events:

i. Monetary / Credit Policy
ii. Union Budget
iii. Government Borrowing / Auction Days
iv. Material Statements on Sovereign Rating
v. Issuer or Sector Specific events which have a material impact on yields
vi. Central Governmsent Election Days
vii. Quarter end day

In addition to the above, valuation agencies may determine any other event as an exceptional event. All exceptional events along-with valuation carried out on such dates shall be documented with adequate justification.

2. **Definition of tenure buckets for Similar Maturity**

When a trade in the same ISIN has not taken place, reference should be taken to trades of either the same issuer or a similar issuer, where the residual tenure matches the tenure of the bond to be priced. However, as it may not be possible to match the exact tenure, it is proposed that tenure buckets are created and trades falling within such similar maturity be used as per table below.

Residual Tenure of Bond to be priced	**Criteria for similar maturity**
Up to 1 month	Calendar Weekly Bucket
Greater than 1 month to 3 months	Calendar Fortnightly Bucket
Greater than 3 months to 1year	Calendar Monthly Bucket
Greater than 1 year to 3 years	Calendar Quarterly Bucket
Greater than 3 years	Calendar Half Yearly or Greater Bucket

In addition to the above:

a. In case of market events, or to account for specific market nuances, valuation agencies may be permitted to vary the bucket in which the trade is matched or to split buckets to finer time periods as necessary. Such changes shall be auditable. Some examples of market events / nuances include

cases where traded yields for securities with residual tenure of less than 90 days and more than 90 days are markedly different even though both may fall within the same maturity bucket, similarly for less than 30 days and more than 30 days or cases where yields for the last week v/s second last week of certain months such as calendar quarter ends can differ.

In the case of illiquid/ semi liquid bonds, it is proposed that traded spreads be permitted to be used for longer maturity buckets (1year and above). However, the yield should be

b. adjusted to account for steepness of the yield curve across maturities.

c. The changes / deviations mentioned in clauses a and b, above, should be documented, along with the detailed rationale for the same. Process for making any such deviations shall also be recorded. Such records shall be preserved for verification.

3. Process for determination of similar issuer

Valuation agencies shall determine similar issuers using one or a combination of the following criteria. Similar issuer do not always refer to issuers which trade at same yields, but may carry spreads amongst themselves & move in tandem or they are sensitive to specific market factor/s hence warrant review of spreads when such factors are triggered.

i. Issuers within same sector/industry and/or
ii. Issuers within same rating band and/or
iii. Issuers with same parent/ within same group and/or
iv. Issuers with debt securities having same guarantors and/or
v. Issuers with securities having similar terms like Loan Against Shares (LAS)/ Loan Against Property (LAP)

The above criteria are stated as principles and the final determination on criteria, and whether in combination or isolation shall be determined by the valuation agencies. The criteria used for such determination should be documented along with the detailed rationale for the same in each instance. Such records shall be preserved for verification. Similar issuers which trade at same level or replicate each other's movements are used in waterfall approach for valuations. However, similar issuer may also be used just to trigger the review of spreads for other securities in the similar issuer category basis the trade/news/action in any security/ies within the similar issuer group.

4. Recognition of trades and outlier criteria

i. Volume criteria for recognition of trades (marketable lot)

Paragraph 1.1.1.1(a) of SEBI vide circular no. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019 on Valuation of money market and debt securities, prescribes that the marketable lots shall be defined by AMFI, in consultation with SEBI. In this regard, marketable lot is defined as under.

The following volume criteria shall be used for recognition of trades by valuation agencies:

Parameter	**Minimum Volume Criteria for marketable lot**
Primary	INR 25 cr. for both Bonds/NCD/CP/CD and other money market instruments
Secondary	INR 25 cr. for CP/ CD, T-Bills and other money market instruments
Secondary	INR 5 Cr for Bonds/NCD/G-Secs

Trades not meeting the minimum volume criteria i.e. the marketable lot criteria as stated above shall be ignored.

ii. Outlier criteria

It is critical to identify and disregard trades which are aberrations, do not reflect market levels and may potentially lead to mispricing of a security or group of securities. Hence, the following broad principles would be followed by valuation agencies for determining outlier criteria.

a. Outlier trades shall be classified on the basis of liquidity buckets (Liquid, Semi-liquid, and Illiquid). Price discovery for liquid issuers is generally easier than that of illiquid issuers and hence a tighter pricing band as compared to illiquid issuers would be appropriate.

b. The outlier trades shall be determined basis the yield movement of the trade, over and above the yield movement of the matrix. Relative movement ensures that general market movements are accounted for in determining trades that are outliers. Hence, relative movement over and above benchmark movement shall be used to identify outlier trades.

c. Potential outlier trades which are identified through objective criteria defined above will be validated through polling from market participants. Potential outlier trades that are not validated through polling shall be ignored for the purpose of valuation.

d. The following criteria shall be used by valuation agencies in determining Outlier Trades

Liquidity Classification	**Bps Criteria (Yield movement over Previous Day yield after accounting for yield movement of matrix)**		
	Up to 15 days	**15-30 days**	**Greater than 30 days**
Liquid	30 bps	20 bps	10 bps
Semi-liquid	45 bps	35 bps	20 bps
Illiquid	70 bps	50 bps	35 bps

The above criteria shall be followed consistently and would be subject to review on a periodic basis by valuation agencies and any change would be carried in consultation with AMFI.

e. In order to ensure uniform process in determination of outlier trades the criteria for liquidity classification shall be as detailed below.

Liquidity classification criteria — liquid, semi Liquid and Illiquid definition

Valuation agencies shall use standard criteria for classifying trades as Liquid, Semi-Liquid and illiquid basis the following two criteria

a. Trading Volume
b. Spread over reference yield

Such criteria shall be reviewed on periodic basis in consultation with AMFI. Trading Volume (Traded days) based

criteria:

Number of unique days an issuer trades in the secondary market or issues a new security in the primary market in a calendar quarter

- Liquid >=50% of trade days
- Semi liquid >=10% to 50% trade days

- Illiquid <10% of trade day

Spread based criteria:

Spread over the matrix shall be computed and based on thresholds defined, issuers shall be classified as liquid, semi liquid and illiquid. For bonds thresholds are defined as up to 15 bps for liquid; >15-75 bps for semi-liquid; > 75 bps for illiquid. (Here, spread is computed as average spread of issuer over AAA Public Sector Undertakings/Financial Institutions/Banks matrix), For CP/ CD- up to 25 bps for liquid; >25- 50 bps for semiliquid; >50 bps for illiquid. (Here, spread is computed as average spread of issuer over A1+/AAA CD Bank matrix).

The thresholds shall be periodically reviewed and updated having regard to the market.

The best classification (liquid being the best) from the above two criteria (trading volume and spread based) shall be considered as the final liquidity classification of the issuer. The above classification shall be carried out separately for money market instruments (CP/ CDs) and bonds.

5. Process for construction of spread matrix

Valuation agencies shall follow the below process in terms of calculating spreads and constructing the matrix:

Steps	**Detailed Process**
Step 1	**Segmentation of corporates-** The entire corporate sector is first categorized across following four sectors i.e. all the corporates will be catalogued under one of the below mentioned bucket: 1. Public Sector Undertakings/Financial Institutions/Banks; 2. Non-Banking Finance Companies -except Housing Finance Companies; 3. Housing Finance Companies; 4. Other Corporates

Step 2	**Representative issuers -** For the aforesaid 4 sectors, representative issuers (Benchmark Issuers) shall be chosen by the valuation agencies for only higher rating {I.e. "AAA" or AA+). Benchmark/Representative Issuers will be identified basis high liquidity, availability across tenure in AAA/AA+ category and having lower credit/liquidity premium. Benchmark Issuers can be single or multiple for each sector. It may not be possible to find representative issuers in the lower rated segments, however in case of any change in spread in a particular rating segment, the spreads in lower rated segments should be suitably adjusted to reflect the market conditions. In this respect, in case spreads over benchmark are widening at a better rated segment, then adjustments should be made across lower rated segments, such that compression of spreads is not seen at any step. For instance, if there is widening of spread of AA segment over the AAA benchmark, then there should not be any compression in spreads between AA and A rated segment and so on.
Step 3	**Calculation of benchmark curve and calculation of spread –** 1. Yield curve to be calculated for representative issuers for each sector for maturities ranging from 1month till 20 years and above. 2. Waterfall approach as defined in Part A (1) above will be used for construction of yield curve of each sector. 3. In the event of no data related to trades/primary issuances in the securities of the representative issuer is available, polling shall be conducted from market participants 4. Yield curve for Representative Issuers will be created on daily basis for all 4 sectors. All other issuers will be pegged to the respective benchmark issuers depending on the sector, parentage and characteristics. Spread over the benchmark curve for each security is computed using latest available trades/primaries/polls for respective maturity bucket over the Benchmark Issuer. 5. Spreads will be carried forward in case no data points in terms of trades/primaries/polls are available for any issuer and respective benchmark movement will be given

Step 4	1. The principles of VWAY, outlier trades and exceptional events shall be applicable while constructing the benchmark curve on the basis of trades/primary issuances. 2. In case of rating downgrade/credit event/change in liquidity or any other material event in Representative Issuers, new Representative Issuers will be identified. Also, in case there are two credit ratings, the lower rating to be considered. 3. Residual tenure of the securities of representative issuers shall be used for construction of yield curve.

Part B: Valuation of G-Secs (T-Bill, Cash management bills, G-Sec and SDL)

The following is the waterfall mechanism for valuation of Government securities:

- VWAY of last one hour, subject to outlier validation
- VWAY for the day (including a two quote, not wider than 5 bps on NDSOM), subject to outlier validation
- Two quote, not wider than 5 bps on NDSOM, subject to outlier validation
- Carry forward of spreads over the benchmark
- Polling etc.

Note:

1. VWAY shall be computed from trades which meet the marketable lot criteria stated in Part A of these Guidelines.
2. Outlier criteria: Any trade deviating by more than+/- 5 bps post factoring the movement of benchmark security shall be identified as outlier. Such outlier shall be validated through polling for inclusion in valuations. If the trades are not validated, such trades shall be ignored.

N. Annexure - 2

AMFI GUIDELINES ON POLLING PROCESS FOR MONEY MARKET AND DEBT SECURITIES

Polling Guidelines:

1. Valuation agencies shall identify the Mutual Funds who shall participate in the polling process on a particular day, taking into account actors such as diversification of poll

submitters and portfolio holding of the Mutual Funds. Mutual Funds who are identified by the valuation agencies shall necessarily participate in the polling process. However, in case any Mutual Fund does not participate in the polling process, detailed reason for the same shall be recorded at the time and subsequently made available during SEBI inspections. In this respect, since a Mutual Fund may have investments in similar securities, a security not forming part of investment universe may not be considered as an adequate reason for not participating in the polling process.

2. Polling will be carried out on a daily basis by the valuation agencies, in terms of points 9-11 below.
3. Each valuation agency needs to take polls from at least 5 unique Mutual Funds on a daily basis. Hence, between the two valuation agencies 10 unique Mutual Funds to be polled. They may cover more Mutual Funds, over and above this. For benchmark securities a poll constituting at least 5 responses will be considered as valid. In case of non-benchmark securities a poll constituting at least 3 responses will be considered as valid. The responses received by each valuation agency will be shared with the other agency also.
4. Median of polls shall be taken for usage in valuation process.
5. The valuation agencies will also need to cover as many non- Mutual Fund participants as possible, over and above the Mutual Funds, to improve on the polling output quality.
6. Endeavour would be made to have adequate representation of both holders and non-holders of the same bond/same issuer for non-benchmark securities in the poll process. Where this is not possible, valuation agencies may seek polls from holders of bonds with a similar structure.
7. In the case of issuers with multiple notch rating upgrades / downgrades over short periods of time, valuation agencies shall:
   a. Conduct polls with a larger universe of pollers.
   b. Increase the frequency of polling
8. Suo-moto feedback on valuations should be entertained only through formal mails from persons designated by AMC for said purpose, and the same shall be validated through re-polling. Any such feedback shall be duly recorded by the valuation agencies, including the reason for the challenge, results of re-polling and subsequent changes in valuation on re- polling, if any. Such records shall be preserved by the valuation agencies, for verification.
9. Polling will be done for two sets of securities, Benchmark & Others.
10. Benchmark will be defined for the following categories across tenors.

a) Treasury Bills
b) Central Government Securities
c) State Government Securities
d) AAA PSU / PFI /PSU Banks
e) AAA Private
f) NBFC
g) HFC
h) Any other as required for improving fair valuations.

11. Polling shall be conducted in the following two scenarios :

a) Validation of traded levels if they are outlier trades.
b) Non-traded Securities (in exceptional circumstances as defined in the waterfall mechanism for valuation of money market and debt securities).

12. Best efforts should be made by poll submitters to provide fair valuation of a security.

13. The polling process will be revalidated by external audit of the valuation agencies with at least an annual frequency

14. AMCs shall have a written policy, approved by the Board of AMC and Trustees, on governance of the polling process. The aforesaid policy shall include measures for mitigation of potential conflicts of interest in the polling process and shall identify senior officials, with requisite knowledge and expertise, who shall be responsible for polling. Further, the policy should outline the following aspects:

a. The process of participating in a polling exercise.
b. Identify the roles and responsibilities of persons participating in the polling.
c. Include policies and procedures for arriving at the poll submission
d. Cover the role of the Board of AMC and Trustees, and the periodic reporting that needs to be submitted to them.
e. All polling should be preferably over email. In case for any reason, the polling is done by way of a telephonic call then such a call should be over recorded lines, followed subsequently by an email.
f. AMCs should have adequate business continuity arrangements for polling, with the necessary infrastructure / skill to ensure that consistent delivery of poll submissions is made without material interruption due to any failure, human or technical.

15. All polling done will have to be documented and preserved in format approved by the Board of AMC, for a period of eight years, along-with details of the basis of polling (such as market transactions, market quotes, expert judgement etc.).

16. AMCs shall ensure that participation in the polling process is not misused to inappropriately influence the valuation of securities. The officials of the AMC who are responsible for polling in terms of point no. 14 above, shall also be personally liable for any misuse of the polling process.

17. AMCs shall maintain an audit trail for all polls submitted to valuation agencies.