



## Valuation Policy & Procedure

## **A. Background**

SEBI has amended Regulation 47 and the Eighth Schedule relating to valuation of investments on February 21, 2012 to introduce overriding principles in the form of "Principles of Fair Valuation".

Prior to this amendment, Eighth schedule and various circulars issued from time-to-time provided detailed guidelines on valuation of traded securities, non-traded securities, thinly traded securities, etc.

The amended regulations require that mutual funds shall value their investments in accordance with principles of fair valuation so as to ensure fair treatment to all investors i.e. existing investors as well as investors seeking to subscribe or redeem units.

It further prescribes that the valuation shall be reflective of the realizable value of securities and shall be done in good faith and in a true and fair manner through appropriate valuation policies and procedures approved by the Board of the asset management company (AMCo)

The amendment also states that in case of any conflict between the principles of fair valuation and valuation guidelines as per Eighth Schedule and circulars issued by SEBI, the Principles of Fair Valuation shall prevail.

## **B. Policy Coverage**

This policy shall cover the following:

1. Valuation methodologies for particular types of securities.
2. Inter-scheme transfers.
3. Composition and role of the Valuation Committee.
4. Periodic review
5. Review by Independent Auditor
6. Conflict of interest
7. Exceptional events
8. Record keeping

## **C. Valuation methodologies**

1. Annexure I describes the methodologies for valuing each and every type of security held by the schemes.
2. Investment in any new type of security shall be made only after establishment of the valuation methodology for such security with the approval of the board of the AMC.

## **D. Inter-scheme transfers**

1. Inter-scheme transfers shall be effected as per regulations and internal policy at prevailing market price (essentially fair valuation price).
2. Annexure I describes the methodology to determine the fair valuation of securities which are intended to be transferred from one scheme to another.

## **E. Valuation Committee**

1. Valuation committee shall comprise of the following personnel:
  - a. Managing Director and Chief Executive Officer
  - b. Head – Fixed Income / Head - Equities
  - c. Chief Risk Officer
  - d. Chief Operating Officer
  - e. Head – Fund Administration
  - f. Compliance Officer

President can reconstitute or nominate additional members for the valuation committee.

2. Following shall be the scope of the committee:
  - a. Recommendation and drafting of valuation policy for AMCo Board approval
  - b. Review the accuracy and appropriateness of methods used in arriving at the fair value of securities and recommend changes, if any.
  - c. Lay down procedures to detect and prevent incorrect valuation.
  - d. Approve changes in policy with regards to inter-scheme trades (at least three members).
  - e. Recommend valuation method during exceptional events.
  - f. Recommend valuation methodology for a new type of security.
  - g. Report to the Board regarding any deviations or incorrect valuations.

## **F. Periodic Review**

The valuation committee shall be responsible for ongoing review of the valuation methodologies in terms of its appropriateness and accuracy in determining the fair value of each and every security.

The valuation committee shall update the AMCo board and the Board of Trustee, at least every quarter, in terms of the effectiveness of the methodologies and deviations or incorrect valuations.

## **G. Review by Independent Auditor**

The valuation policies and procedures shall be regularly reviewed (at least once in a Financial Year) by an independent auditor to ensure their continued appropriateness.

## **H. Conflict of Interest**

The valuation committee shall be responsible for ongoing review of areas of conflict (including potential areas, if any) and should recommend to the AMCo board the procedures to mitigate it.

## **I. Exceptional Events**

1. Following types of events could be classified as Exceptional events where current market information may not be available / sufficient for valuation of securities:
  - a. Major policy announcements by the Central Bank, the Government or the Regulator.
  - b. Natural disasters or public disturbances that force the markets to close unexpectedly.
  - c. Absence of trading in a specific security or similar securities.
  - d. Significant volatility in the capital markets.

In case the Investment Manager is of the opinion that the price provided by valuation agencies (currently CRISIL and ICRA) does not reflect the fair value of a security, the same shall be valued on the basis of guidelines provided by the Valuation Committee.

**2. Escalation Procedure:**

- a. Valuation Committee shall be responsible for monitoring Exceptional events and recommending appropriate valuation methods under the circumstances with due guidance from the AMCo board.
- b. Under such circumstances, Valuation committee shall seek the guidance of the AMCo board in deciding the appropriate methodology for valuation of affected securities.
- c. Deviations from the valuation policy and principles, if any, will be communicated to the unit holders' wide suitable disclosures on the fund website.

**J. Record keeping**

Policy document should be updated in SID / SAI, website and other documents as prescribed by the SEBI regulations and guidelines.

All the documents which forms the basis of valuation including inter-scheme transfers (the approval notes & supporting documents) should be maintained in electronic form or physical papers.

Above records will be preserved in accordance with the norms prescribed by the SEBI regulations and guidelines.

Valuation Policy: Annexure I

The revised policy is to be implemented from October 24, 2024.

**A. Equity and related securities**

Asset Class	Traded / Non Traded	Basis of Valuation
	Traded	<p>On the valuation day, at the last quoted closing price on the National Stock Exchange (NSE)/ Bombay Stock Exchange (BSE) or other stock exchange, where such security is listed. If not traded on the primary stock exchange, the closing price on the other stock exchange will be considered. NSE will be the primary stock exchange.</p> <p>For Index Funds / Exchange Traded Funds, exchange of underlying benchmark index would be the primary stock exchange.</p>
	Non Traded	<ol style="list-style-type: none"> <li>1. When a security is not traded on any stock exchange, on the date of valuation, then the previous closing price on NSE / any other SE will be used, provided such closing price is not exceeding a period of 30 calendar days.</li> <li>2. In all other cases               <ol style="list-style-type: none"> <li>a. <b>Equity Shares:</b> Based on the latest available Balance Sheet, net worth shall be calculated as follows:                   <ol style="list-style-type: none"> <li>i) Net Worth per share = [share capital+ reserves (excluding revaluation reserves) – Misc. expenditure and Debit Balance in P&amp;L A/c] Divided by No. of Paid up Shares.</li> <li>ii) Average capitalisation rate (P/E ratio) for the industry based upon either BSE or NSE data (which should be followed consistently and changes, if any noted with proper justification thereof) 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.</li> <li>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 ill-liquidity so as to arrive at the fair value per share.</li> <li>iv) In case the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalised earning.</li> <li>v) In case where 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.</li> <li>vi) 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.</li> </ol> <p>To determine if a security accounts for more than 5% of the total assets of the scheme, it should be valued by the procedure above and the proportion which it bears to the total net assets of the scheme to which it belongs would be compared on the date of valuation</p> </li> <li>b. <b>Preference Shares:</b> Intrinsic value will be considered</li> <li>c. <b>Equity Warrants / Rights entitlement / partly paid up rights shares:</b> Valuation price will be arrived, after applying appropriate discount (valuation committee delegated the power to decide the discount factor), after reducing the exercise price / issuance price from the closing price of the underlying cash equity security.</li> </ol> </li> </ol>

Asset Class	Traded / Non Traded	Basis of Valuation
		<p>d. <b>Partly Paid Up Share</b> - If the partly paid up share is not traded on any stock exchange on the date of valuation, then it should be valued at the price derived after reducing the uncalled amount from the Closing price of underlying fully paid up share. Further Valuation Committee to decide on application of illiquidity discount as deemed appropriate on case to case basis.</p> <p>e. <b>Demerger:</b></p> <ul style="list-style-type: none"> <li>i. Where there is one resulting Company along with the demerged company and such resulting company is unlisted - The resulting company will be valued by residual price methodology which would be traded value of the demerged company on the day before the demerger less value of the demerged company immediately post demerger. However, if value of demerged entity is greater or equal to the value of the demerged entity before demerger, then the resulting company would be valued at zero.</li> <li>ii. Where there are more than one resulting companies along with the demerged company and all or some resulting companies are unlisted - The resulting companies will be valued by residual price methodology which would be traded value of the demerged entity on the day before the demerger less value of the demerged entity immediately post demerger. The residual value would 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, the residual value for unlisted companies would be further determined by reducing the traded value of listed resulting companies from the residual value computed as above</li> <li>iii. In case where the resulting companies and the demerged company are unlisted – The traded value of demerged company on the day before the demerger would be allocated between the resulting companies and demerged company in the ratio provided as a part of scheme of arrangement or such other ratio as decided by the Valuation Committee.</li> </ul> <p>If the above companies remained unlisted for more than 3 months, illiquidity discount on the derived prices may be applied on the basis of the market capitalization of the issuer viz. at 5% ,10% and 15%, for Large cap, Mid cap, Small cap respectively. The mentioned illiquidity discount would be applied basis approval from the valuation committee.</p> <p>In case of the above listed, Valuation committee may decide fair value other than guided above, post considering facts on a case to case basis. Further guidance from valuation committee would be sought for any exceptional cases not covered above.</p> <p>f. <b>Merger:</b> Valuation of resulting company would be determined by valuation of merging / amalgamating company immediately prior to the ex-date of merger / amalgamation</p> <ul style="list-style-type: none"> <li>i. In case merging / amalgamating companies being listed, valuation of resulting companies would be summation of valuation of entities immediately prior to merger date. Further if listed company merges into an unlisted surviving company, then the surviving company should be valued at the traded value of merging company immediately before merger.</li> </ul>

Asset Class	Traded / Non Traded	Basis of Valuation
		<p>Example:</p> <ul style="list-style-type: none"> <li>• If Company A and Company B merge to form a new Company C then Company C would be valued at the price equals to A+B</li> <li>• If Company A which is a listed company merges into Company B which is an unlisted company would be valued at traded price of A immediately before merger.</li> </ul> <p>ii. In case, one of the merging / amalgamating companies being unlisted, valuation of resulting companies would be valued on the principles of fair valuation as guided by the valuation committee.</p> <p>If the above companies remained unlisted for more than 3 months, illiquidity discount on the derived prices may be applied on the basis of the market capitalization of the issuer viz. at 5% ,10% and 15%, for Large cap, Mid cap, Small cap respectively. The mentioned illiquidity discount would be applied basis approval from the valuation committee.</p> <p>In case of the above listed, Valuation committee may decide fair value other than guided above, post considering facts on a case to case basis. Further guidance from valuation committee would be sought for any exceptional cases not covered above.</p>
	Thinly Traded	<p>Policy similar to non-traded Equity Shares.</p> <p>Definition of thinly traded equity/ equity related security: When trading in an equity/equity related security in a calendar month is both less than INR 5 lacs and the total volume is less than 50,000 shares, it shall be considered as a thinly traded security</p>
	Unlisted Equity Shares	<p>Unlisted equity shares of a company shall be valued "in good faith" on the basis of the valuation principles laid down below:</p> <p>a. Based on the latest available audited balance sheet, net worth shall be calculated as lower of (i) and (ii) below:</p> <p>i. Net worth per share = [share capital plus free reserves (excluding revaluation reserves) minus Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses] divided by Number of Paid up Shares.</p> <p>ii. After taking into account the outstanding warrants and options, Net worth per share shall again be calculated and shall be = [share capital plus consideration on exercise of Option/Warrants received/receivable by the Company plus free reserves(excluding revaluation reserves) minus 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}</p> <p>The lower of (i) and (ii) above shall be used for calculation of net worth per share and for further calculation in (c) below.</p> <p>b. Average capitalisation rate (P/E ratio) for the industry based upon either BSE or NSE data (which should be followed consistently and</p>

Asset Class	Traded / Non Traded	Basis of Valuation
		<p>changes, if any, noted with proper justification thereof) 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.</p> <p>c. 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.</p> <p>The above methodology for valuation shall be subject to the following conditions:</p> <ol style="list-style-type: none"> <li>All calculations as aforesaid shall be based on audited accounts.</li> <li>In case where 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.</li> <li>If the net worth of the company is negative, the share would be marked down to zero.</li> <li>In case the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalised earning.</li> <li>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 should be valued in accordance with the procedure as mentioned above on the date of valuation.</li> </ol> <p>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.</p>
	Lock-in Shares	In case of Equity share under lock in for more than 3 months from the date of purchase / allotment, which are traded on the stock exchanges, the investment manager may apply appropriate discount to the closing price quoted on the stock exchange as may be decided by the Valuation Committee on a case to case basis.
	Inter-scheme Transfers	Inter-scheme would be done at the Price of the security prevailing on the primary stock exchange at the time of effecting the transfer. If not traded on the primary stock exchange, the closing price of other stock exchange (BSE) will be considered.
Futures & Options	Traded/Non Traded	On the valuation day, at the settlement price provided by the respective stock exchanges.
Qualified Institutional Placement (QIP) / Follow on Public Offer (FPO) / Initial Public Offer (IPO)		In case of QIP and FPO recognition and valuation would start from the date of allotment. In case of IPO the security would be valued at cost from the date of allotment till a day prior to listing and on last quoted closing price (as mentioned above under Traded criteria) from the day of listing.



Asset Class	Traded / Non Traded	Basis of Valuation
Convertible Debentures		In respect of convertible debentures and bonds, the non-convertible and convertible components shall be valued separately. The non-convertible component (Debt) should be valued on the same basis as would be applicable to a debt instrument. The convertible component (Equity) should be valued on the same basis as would be applicable to an equity instrument/equity derivative. If, after conversion the resultant equity instrument would be traded <i>pari passu</i> with an existing equity instrument which is traded, the value of the latter instrument can be arrived at after an appropriate discount for non-tradability, time value, volatility etc. of the equity instrument during the period preceding the conversion. While valuing such instruments, the fact whether the conversion is optional should also be factored in

## B. Fixed Income and related securities

Category	Policy
Valuation of all Debt and Money Market Instruments  (including Government Securities, Treasury Bills, Cash Management Bills, State Development Loans, Ujwal DISCOM Assurance Yojana (UDAY) Bond etc.)  (Including Reverse Repo, Corporate Debt Repo, TREPS all with residual maturity greater than 30 days),	At average of the security level prices provided by valuation agencies. In case security level prices are not given by valuation agencies, then such securities will be valued at weighted average purchase yield on the date of allotment / purchase.
Valuation of money market and debt securities classified as below investment grade or default.	All money market and debt securities which are rated below investment grade shall be valued at the average of the security level price provided by valuation agencies.  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 by the valuation agencies on the basis of indicative haircuts.  If security is traded, it will be valued at lower of weighted average traded price available on public platform or average of the security level price provided by valuation agencies. The traded qualification criteria shall be as determined by valuation agencies. In the absence of the information on the traded qualification criteria from the valuation agencies, the qualification criteria shall be as determined by the Investment Committee.  In absence of the above information the valuation shall be arrived at basis guidance from Investment Committee.  In case of any deviation from the valuation price for money market and debt securities rated below investment grade provided by the valuation

Category	Policy
	agencies, AMC shall follow the procedure as mentioned in SEBI Circular No SEBI/HO/IMD/DF4/CIR/P/2019/41 dated March 22, 2019 and SEBI Circular No SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019
<b>Interest Rate Futures</b>	The exchange traded Interest Rate Futures would be valued based on the Daily settlement Price or any other derived price provided by the exchange
<b>Interest Rate Swaps and other Debt OTC Derivatives</b>	Valuation would be done at average of Price provided by valuation agencies. In absence of Price from valuation agencies, valuation shall be arrived at basis guidance from Investment Committee.
<b>Market Linked Debentures</b>	Valuation would be done at average of Price provided by valuation agencies. In absence of Price from valuation agencies, valuation shall be arrived at basis guidance from Investment Committee.
<b>Inter-scheme Transfers (IST)</b>	<p>Inter-scheme transfer of all debt and money market securities would be done as per the Price provided by valuation agencies for the said purpose.</p> <p>If Prices from both the valuation agencies are received within the pre-agreed turnaround time (TAT) plus an additional grace time of 30 minutes, an average of the prices so received shall be used for IST.</p> <p>If Prices from only one valuation agency are received within the agreed TAT plus an additional grace time of 30 minutes, then that Price will be used for IST. In case prices from any of the valuation agencies are received beyond the additional grace time of 30 minutes and are adopted for IST trade, then the same shall be approved by Investment Committee.</p> <p>For securities where price is not provided by valuation agencies, the below mentioned approach would be adopted.</p> <p><u>For Fixed Income Securities (excluding Government Securities, Treasury Bills, Cash Management Bills, State Development Loans, Ujwal DISCOM Assurance Yojana (UDAY) Bond, etc)</u></p> <p>Inter-scheme will be done at the weighted average YTM of all trades for <b>same or similar security</b> on a public platform with minimum traded lot of INR 25 crore of face value at the time of inter-scheme.</p> <p>If there are eligible trades in the same security, the weighted average YTM of these will be considered. If there are no eligible trades in the same security, then weighted average YTM of similar securities will be considered.</p> <p><b>Criteria for identifying the similar securities:</b></p> <p>Similar security should be identified by the following waterfall logic:</p> <ol style="list-style-type: none"> <li>1. Same issuer with maturity date within <math>\pm 5</math> days of maturity date of security for inter-scheme transfer shall be considered first. If no such instance is available, then Step 2 to be followed: <ul style="list-style-type: none"> <li>▪ <i>Example: For inter-scheme transfer of Canara Bank CD maturing on 15-Jun-2016, all secondary market trades of Canara Bank CD</i></li> </ul> </li> </ol>

Category	Policy
<b>Inter-scheme Transfers (Continued)</b>	<p><i>maturing within 10-Jun-2016 to 20-Jun-2016 will be considered first</i></p> <ol style="list-style-type: none"> <li>2. Similar security from a different issuer within the same category (PSU Bank, Private Bank or Financial Institution etc) and having same credit rating, with maturity date within <math>\pm 5</math> days of maturity date of security considered for inter-scheme transfer <ul style="list-style-type: none"> <li>▪ <i>Example: For inter-scheme transfer of Canara Bank CD maturing on 15-Jun-2016, all secondary market trades of similar public sector bank CDs maturing within 10-Jun-2016 to 20-Jun-2016 having same credit rating will be considered</i></li> </ul> </li> <li>3. Provided the maturity dates are within the same calendar quarter.</li> </ol> <p><u>Note:</u> Outlier trades, if any, should be ignored after suitable justification by Valuation Committee.</p> <p><u>In case no data point is available for a security, in accordance with above principles:</u> Inter-Scheme valuation will be at previously valued YTM.</p> <p>For <u>Government Securities, Treasury Bills, Cash Management Bills, State Development Loans, Ujwal DISCOM Assurance Yojana (UDAY) Bond, etc</u></p> <p>Inter-scheme done would be at the last traded YTM on NDS-OM at the time of inter-scheme. In case of no trade on NDS-OM at the time of inter-scheme, previous day's YTM will be considered.</p>

### **C. Foreign Securities including ADR/GDR**

Category	Policy
<u>Traded</u>	<p>Foreign security shall be valued based on the last quoted closing price available on the overseas stock exchange, where the security is listed on multiple exchanges, price of the primary stock exchange in the respective jurisdiction would be considered for valuation.</p> <p>When a security is not traded on stock exchange on the date of valuation, then the previous closing price will be used for valuation, provided such closing price is not exceeding a period of 30 calendar days.</p> <p>However, in case of an extra ordinary event in other markets during the market hours or post the closure of the markets but before NAV computation, the AMC shall value the security at suitable fair value as determined by the Valuation Committee on a case-to-case basis. Further the valuation committee reserves right to suitably modify the defined priority or valuation methodology by documenting rationale for exception to the above defined policy.</p>

Category	Policy
	On valuation date, all assets and liabilities in foreign currency shall be valued in Indian Rupees at the reference rate available on FBIL.'s (Financial Benchmarks India Pvt Ltd) website as at the close of banking hours on the relevant business day in India. For securities / exposure where RBI / FBIL reference rate is not available, the valuation committee would approve the exchange rate to be used. In case the direct exchange rates are not available, then cross currency rate with USD would be considered. The valuation committee reserves the right to change the source for determining the exchange rate with appropriate rationale in case of exceptional scenarios.
<b><u>Non Traded</u></b>	<p>Where the security is not traded, on the date of valuation, on any of the exchanges the last quoted closing price on the selected / primary stock exchange shall be used provided such date is not more than thirty days prior to the valuation date. Securities not traded for more than thirty days shall be valued by AMC at fair value after considering relevant factors on case-to-case basis.</p> <p>On valuation date, all assets and liabilities in foreign currency shall be valued in Indian Rupees at the reference rate available on FBIL.'s (Financial Benchmarks India Pvt Ltd) website as at the close of banking hours on the relevant business day in India. For securities / exposure where RBI / FBIL reference rate is not available, the valuation committee would approve the exchange rate to be used. In case the direct exchange rates are not available, then cross currency rate with USD would be considered. The valuation committee reserves the right to change the source for determining the exchange rate with appropriate rationale in case of exceptional scenarios.</p>

#### **D. Investment in Mutual Fund (including ETF's) and Corporate Debt Market Development Fund Units**

Category	Policy
<b><u>Domestic Mutual Fund</u></b>	<p>As per guidelines issued by AMFI, Mutual Fund Units (including ETF's) listed and traded on exchanges would be valued at the last quoted closing price on the National Stock Exchange (NSE)/ Bombay Stock Exchange (BSE) or other stock exchange, where such security is listed. If not traded on the primary stock exchange, the closing price on the other stock exchange will be considered. NSE will be the primary stock exchange.</p> <p>Unlisted Mutual Fund Units and listed but not traded Mutual Fund Units (including ETF's) would be valued at the NAV as on the valuation day In case if on any valuation day the domestic mutual fund is having a non-business day then previous day closing price / NAV would be considered for valuation.</p>
<b><u>Overseas Mutual Fund</u></b>	<p>Overseas Mutual Fund Units (including ETF's) listed and traded on exchanges would be valued at the last quoted closing price on the overseas stock exchange, where the security is listed on multiple exchanges, price of the primary stock exchange in the respective jurisdiction would be considered for valuation.</p> <p>Unlisted Mutual Fund Units and listed but not traded Mutual Fund Units (including ETF's) would be valued at the NAV as on the valuation day. In case if on any valuation day the overseas mutual fund is having a non-business day then previous day closing price / NAV would be considered for valuation.</p>

Category	Policy
<b><u>Corporate Debt Market Development Fund</u></b>	Units of Corporate Debt Market Development Fund (CDMDF) would be valued at the published NAV as on the valuation day.

**E. Investment in ReITs, InvITs**

Category	Policy
<b><u>ReITs / InvITs</u></b>	On the valuation day, at the last quoted closing price on the National Stock Exchange (NSE)/ Bombay Stock Exchange (BSE) or other stock exchange, where such security is listed. If not traded on the primary stock exchange, the closing price on the other stock exchange will be considered. NSE will be the primary stock exchange. In case if it's not traded on the valuation day the valuation committee would recommend appropriate valuation methodology to determine the fair value.

**F. Waterfall Mechanism for valuation of money market, debt and government securities:**

SEBI vide circular no. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019 has laid down broad principles for waterfall approach to be followed for valuation of debt, money market and government securities. The said circular prescribes AMFI shall ensure valuation agencies have a documented waterfall approach for valuation of Debt & money market securities.

The AMFI best practices guidelines circular (135/BP/83/2019-20) dated November 18, 2019 provided guidelines on waterfall approach to be followed for valuation money market and debt securities. The waterfall approach is documented in Annexure II

**G. Gold, Silver, Other Commodities and Exchange Traded Commodity Derivatives:**

Category	Policy
<b>Gold</b>	<p>The physical Gold held by 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 995 parts per thousand, subject to the following:</p> <ul style="list-style-type: none"> <li>(a) adjustment for conversion to metric measure as per standard conversion rates.</li> <li>(b) adjustment for conversion of US dollars into Indian rupees as per the RBI reference rate available on FBIL.'s (Financial Benchmarks India Pvt Ltd) website as at the close of banking hours on the relevant business day in India; and</li> <li>(c) addition of- <ul style="list-style-type: none"> <li>(i) transportation and other charges that may be normally incurred in bringing such gold or silver from London to the place where it is stored on behalf of the mutual fund; and</li> <li>(ii) notional customs duty and other applicable taxes and levies that may be normally incurred to bring the gold or silver from the London to the place where it is actually stored on behalf of the mutual fund;</li> </ul> </li> </ul> <p>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; If the Gold held by a scheme has a greater fineness; the relevant LBMA prices of AM fixing shall be taken as the reference price. If the Gold acquired by the 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 above-paragraph.</p> <p>MCX spot price would be considered for determining a suitable notional premium to arrive at the fair valuation reflecting the domestic prices of Gold. Instances where MCX spot price is lower than the price as determined above, a suitable notional discount would be applied. If on any day MCX spot price is not available, any other appropriate source may be used as agreed upon by the Valuation Committee.</p> <p>If on any day, LBMA price is not available due to holiday, the last published LBMA price will be considered for valuation by applying last available RBI reference rate.</p>
<b>Silver</b>	<p>The physical Silver held by scheme shall be valued at the AM fixing price of London Bullion Market Association (LBMA) in US dollars per troy ounce for Silver having a fineness of 999 parts per thousand, subject to the following:</p> <ul style="list-style-type: none"> <li>(a) adjustment for conversion to metric measure as per standard conversion rates;</li> <li>(b) adjustment for conversion of US dollars into Indian rupees as per the RBI reference rate available on FBIL.'s (Financial Benchmarks India Pvt Ltd) website as at the close of banking hours on the relevant business day in India; and</li> <li>(c) addition of- <ul style="list-style-type: none"> <li>(i) transportation and other charges that may be normally incurred in bringing such silver from London to the place where it is actually stored on behalf of the mutual fund; and</li> <li>(ii) notional customs duty and other applicable taxes and levies that may be normally incurred to bring the silver from London to the place where it is actually stored on behalf of the mutual fund;</li> </ul> </li> </ul> <p>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 silver to the place where it is</p>

Category	Policy
	<p>stored on behalf of the mutual fund. Where the silver held by a scheme has a greater fineness, the relevant LBMA prices of AM fixing shall be taken as the reference price.</p> <p>MCX spot price would be considered for determining a suitable notional premium to arrive at the fair valuation reflecting the domestic prices of Silver. Instances where MCX spot price is lower than the price as determined above, a suitable notional discount would be applied. If on any day MCX spot price is not available, any other appropriate source may be used as agreed upon by the Valuation Committee.</p> <p>If on any day, LBMA price is not available due to holiday, the last published LBMA price will be considered for valuation by applying last available RBI reference rate.</p>
<b>Exchange Traded Commodities Derivatives (ETCDs) Contracts</b>	<p>Futures and Options will be valued at the settlement price provided by the respective commodity exchange where they are listed / traded.</p> <p>In case necessary details to value ETCDs are not available the same would be valued based on guidance from valuation committee.</p>
<b>Other Commodities (physical received from trading in ETCDs other than the Gold &amp; Silver):</b>	<p>On receipt of the physical stocks at the accredited warehouses of the exchanges, at the allocated location, the commodity will be valued daily at the pooled physical price of the respective location published by the respective commodity exchanges.</p> <p>If the pooled physical prices are not available on the respective commodity exchanges, then below waterfall approach would be adopted.</p> <ol style="list-style-type: none"> <li>a) Price of the derivative position best reflecting the physical holding (location of warehousing &amp; expiry) which the scheme owns will be considered for valuation.</li> <li>b) Previous day valuation price</li> </ol> <p>In case necessary details to value are not available the same would be valued based on guidance from valuation committee.</p>

Notes:

1. Public Platform refers to:

- a) Clearcorp F-TRAC Platform of Clearcorp Dealing Systems (India) Ltd. (CDSIL), NSE & BSE :

For Commercial Papers and Certificate of Deposits

Clearcorp F-TRAC Platform of Clearcorp Dealing Systems (India) Ltd. (CDSIL)

For corporate bonds / debentures and securitized debts order of preference for the Public Platforms for consideration would be as follow:

NSE – NSE OTC

BSE - ICDM

- b) NDS-OM: For Government Securities, Treasury Bills, Cash Management Bills, State Development Loans, Ujwal DISCOM Assurance Yojana (UDAY) Bond, etc

2. Following assets will be valued at cost plus accruals / amortization:
  - a) Bank Fixed Deposits
  - b) TREPS / Reverse Repo (including Corporate Bond Repo) with tenor up to 30 days
3. Weighted average YTM / Last Traded YTM shall be rounded up to two digits after decimal point.
4. Securities with Put/Call Options – Would be valued as per security level prices provided by the valuation agencies for the said purpose.
5. The valuation of security lent shall be done as per the valuation methodology stated for respective security in Annexure I of this valuation policy. The lending fee received for the security lent would be amortized proportionately, until expiry of the contract.
6. In case of any deviation from the valuation price for money market and debt securities provided by the valuation agencies, AMC shall follow the procedure as mentioned in SEBI Circular No SEBI/HO/IMD/DF4/CIR/P/2019/41 dated March 22, 2019 and SEBI Circular No SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019

**\*Disclaimer**

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

### **1. Waterfall Mechanism for valuation of money market and debt securities:**

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.

#### **Note 4**

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 Government Election Days
- vii. Quarter end days

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

- 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.
- 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.
- 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.
- 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, semiLiquid 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 days

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	<p><b>Segmentation of corporates-</b></p> <p>The entire corporate sector is first categorised across following four sectors i.e. all the corporates will be catalogued under one of the below mentioned bucket:</p> <ol style="list-style-type: none"> <li>1. Public Sector Undertakings/Financial Institutions/Banks;</li> <li>2. Non-Banking Finance Companies -except Housing Finance Companies;</li> <li>3. Housing Finance Companies;</li> <li>4. Other Corporates</li> </ol>
Step 2	<p><b>Representative issuers -</b></p> <p>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.</p> <p>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.</p>

	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	<p><b>Calculation of benchmark curve and calculation of spread –</b></p> <ol style="list-style-type: none"> <li>1. Yield curve to be calculated for representative issuers for each sector for maturities ranging from 1 month till 20 years and above.</li> <li>2. Waterfall approach as defined in Part A (1) above will be used for construction of yield curve of each sector.</li> <li>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</li> <li>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.</li> <li>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</li> </ol>
Step 4	<ol style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>3. Residual tenure of the securities of representative issuers shall be used for construction of yield curve.</li> </ol>

**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.

## **II. AMFI GUIDELINES ON POLLING PROCESS FOR MONEY MARKET AND DEBT SECURITIES**

Please refer to Paragraph 2.2.5 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, which prescribes that considering the importance of polling in the valuation process, guidelines shall be issued by AMFI on polling by valuation agencies and on the responsibilities of Mutual Funds in the polling process, as part of the waterfall approach for valuation of money market and debt securities. In this regard, the following Guidelines were approved by the Board of AMFI, in consultation with SEBI.

### **Polling Guidelines:**

1. Valuation agencies shall identify the Mutual Funds who shall participate in the polling process on a particular day, taking into account factors 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.