

# **TAURUS MUTUAL FUND**

## **VALUATION POLICY**

This Valuation Policy documents the policies and procedures to be adopted for valuation of the securities of the schemes of Taurus Mutual Fund. As required by the SEBI (Mutual Funds) Regulations, 1996, the Valuation Policy lays down the valuation policies and procedures approved by the Boards of Taurus Asset Management Company Limited (TAMCO) and Taurus Investment Trust Company Limited (TITCO).

The 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 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.

The following guidelines will be used for valuation of different securities with effect from September 24, 2019:

### **Valuation Committee**

Valuation committee is formed to oversee the valuation of investments purchased by the schemes of Taurus Mutual Fund. There will be representatives from departments other than fund management. AMC will ensure composition of committee in such a way that there is no conflict of interest between investment function and valuation of investments.

### **Following shall be duties and responsibilities of the committee:**

- a. Recommendation and drafting of valuation policy for approval from the AMC Board and from Board of Trustees.
- 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. Recommend to the Boards, the changes in policy with regards to inter-scheme trades.
- e. Decide on valuation method during exceptional events including instances where market quotations are no longer reliable for a particular security.
- f. Decide on valuation methodology for a new type of security.
- g. Report to the Boards regarding any deviations or incorrect valuations.

## **A. Debt securities:**

Investments in debt securities can be classified into the following types:

- 1) Overnight instruments like Reverse repo and term deposits;
- 2) Money Market Instruments, Bonds/Debentures, Pass Through Certificates, etc
- 3) Treasury Bills and Cash Management Bills;
- 4) Central/State Government securities

The valuation policy and process for the above securities is as under:

- 1) Overnight instruments like Reverse Repo/TREPS with residual maturity upto 30 days will be valued at cost plus accrual. Reverse Repo / TREPS with residual maturity greater than 30 days will be valued the average of the prices of each such security provided by AMFI approved agencies (CRISIL and ICRA). Investments in term/fixed deposits will be valued at cost and interest will be accrued daily (daily basis). In the case of deposits with step up rates, interest will be accrued on a daily basis as per the interest rates provided.
- 2) Valuation of Money Market Instruments like Certificate of Deposits, Commercial Papers, Non Convertible Debentures, Pass Through Certificates, Bills Rediscounting instruments and other similar securities.

## **| Valuation of money market and debt securities**

Securities will be valued at the average of the prices of each such security provided by AMFI approved agencies (CRISIL and ICRA).

In case any new securities are purchased and the price of such security is not provided by AMFI approved agencies, then such security will be valued on the purchase yield.

In case only one agency had provided the price, then the same shall be considered for valuation.

**Valuation of Government Securities:** Government Securities (including T Bills) irrespective of any residual maturity shall be valued on the basis of security level prices obtained from valuation agencies.

Valuation of other money market/debt securities, short term deposits with banks (Pending deployment) and other OTC derivatives:

1. The Valuation of bills purchased under rediscounting scheme shall be as per guidelines mentioned for valuation of money market instruments
2. Investment in short term deposit with banks (pending deployment) and repurchase (repo) transactions (including tri-party repo i.e. TREPS) , shall be valued on cost plus accrual basis.
3. Prices of OTC derivatives and market linked debentures shall be obtained from valuation agencies.

**Valuation of Securities with Put /Call Options:**

1. Securities with put /call options on the same day and having same put and call 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 security shall be valued on following basis:

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.

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.

In case no Put Trigger date or Call 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.

If a put option is not exercised by a mutual fund when exercising such put option would be in favour of the scheme, a justification for not exercising the put option shall be provided to the board of AMC / Trustees by the fund manager.

**Security to be valued in case of default or traded below investment grade:**

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.

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. The Valuation Committee

subject to a provision in the Offer Document of the said debt scheme which holds the security in “default” may decide to recommend to the Board to “Segregate” the security.

Securities which are rated below investment grade or default shall be valued at the price provided by AMFI appointed 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 on the basis of indicative haircuts provided by these agencies. 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. These haircuts shall be updated and refined, as and when there is availability of material information which impacts the haircuts.

In case of trades during the interim period between date of credit event and receipt of valuation price from valuation agencies, Taurus MF 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.

Taurus MF 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 with detailed rationale for deviation, as per prescribed in SEBI Circulars, Rules, Regulation and Master Circulars from time to time and taking into account any other specific factor the Valuation Committee may decide upon to value any security.

**Treatment of accrued interest and future accrual of interest, in case of money market and debt securities classified as below investment grade or default:**

- The indicative haircut that has been applied to the principal will also be applied to any accrued interest.
- In case of securities classified as below investment grade but not default, interest accrual will continue with the same haircut applied to the principal.
- In case of securities classified as default, no further interest accrual shall be made.

**Treatment of accounting of any future recovery in terms of principal or interest, in case of money market and debt securities classified as below investment grade or default:**

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

Haircuts for below investment grade securities:

a) 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
<b>BB</b>	15%	20%	25%
<b>B</b>	25%	40%	50%
<b>C</b>	35%	55%	70%
<b>D</b>	50%	75%	100%

b) 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
<b>BB</b>	25%	25%	25%
<b>B</b>	50%	50%	50%
<b>C</b>	70%	70%	70%
<b>D</b>	100%	100%	100%

#### **Waterfall approach for valuation of money market and debt securities:**

The broad principles as mentioned in SEBI circular no. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019 para 2.2 will be adopted as part of waterfall approach for arriving at the security level prices by the Valuation agencies.

The detailed methodology adopted by valuation agencies is elucidated in Annexure 1.

#### **B. Equity and equity related securities:**

1. Traded Equity shares will be valued at their closing prices reported on the Bombay Stock Exchange, which is the principal stock exchange for all schemes of Taurus Mutual fund (except Taurus Nifty Index Fund). Equity Shares of Taurus Nifty Index Fund will be valued at the closing prices reported on the National Stock Exchange. If the shares are not traded on the Bombay Stock exchange, they will be valued at the closing price of National Stock Exchange which is the secondary stock exchange for all the schemes. If security is not traded on Bombay Stock Exchange or National Stock Exchange then same will be valued at closing price of any other stock exchange where

the share is traded. If the share is not traded on any exchange, it should be valued at the closing price of the earliest previous day provided such date is not more than thirty days prior to the valuation date.

2. Ill-liquid equity instruments: Unlisted, thinly traded or ill-liquid equity instruments which have not traded for more than thirty days will be valued on the basis of latest available Balance Sheet on average of capitalization of earnings and net asset value per share further discounted by 10% (15% in case of unlisted securities) as detailed in the SEBI circulars. In case where the latest Balance Sheet is not available within nine months from the close of the year, unless the accounting year is changed, the shares of such companies will be valued at zero. Definition of Thinly Traded Equity/Equity Related Securities: When trading in an equity/equity related security (such as convertible debentures, equity warrants, etc.) in a month is less than Rs. 5 lacs or the total volume is less than 50,000 shares, it shall be considered as a thinly traded security.
3. Equity derivatives: Settlement prices of NSE will be used for valuation. If the same are not available, then the closing prices will be used.
4. IPO application monies will be valued at application cost till the date of listing and thereafter will be valued in accordance with the procedure for valuation of traded equity shares. This will apply to Follow on public offers as well as offer for sale applications. Valuation of additional quantity will only commence after the confirmation of allotment.
5. Rights: Until these are traded, rights entitlement will be valued at the difference between closing price and the rights offer price. Renounced rights will be valued at renunciation price and unsubscribed rights will be valued at zero. In case the rights offer price is greater than the ex-rights price, the value of the rights share is to be taken as zero.
6. Equity warrants: Equity warrants will be valued at traded price if traded. In case these are ill-liquid, the same will be valued at closing price of share reduced by the amount payable on exercise of the warrant. If amount payable on exercise is higher, then it will be valued at zero.
7. Preference shares will be valued at cost. Traded preference shares will be valued at their closing prices similar to traded equity shares.
8. Valuation in case of demerger and other corporate actions: In case of demerger following situation may arise:
  - a. Both the shares are traded on demerger: In such cases, both the shares are valued at their closing prices.
  - b. Shares of only one company continued to be traded on de-merger: Traded shares will be valued at closing prices. Valuation price of non-traded / unlisted resulting company will be arrived at using traded price of demerged company on the day before de-merger less value of traded share of resulting company post demerger. In case value of non-traded / unlisted resulting company arrived at is less than zero, then same will be valued at zero.

- c. Both the shares are not traded on de-merger: In such a scenario, market capitalization of demerged company prior to demerger will be allocated to resulting companies on appropriate basis such as cost of shares, Price Earnings ratio or on other basis as considered appropriate by Valuation Committee.
- d. In case of any other corporate action such as merger, amalgamation etc where in shares of companies are listed, valuation of resulting companies would be summation of valuation of entities immediately prior to merger date.

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

If the above companies remained unlisted for more than 3 months, the Valuation Committee to decide on application of illiquidity discount as deemed appropriate on case to case basis.

Valuation Committee may decide fair price other than the mentioned above, post considering the facts on case to case basis.

9. Shares with differential voting rights: Shares with differential voting rights will be valued as per their closing prices. In case of ill-liquid DVR shares, a discount for ill-liquidity may be applied to arrive at the fair value.

#### **C. Other securities:**

1. Mutual Fund units: Mutual Fund units will be valued at the latest NAV available at the time of valuation.
2. Exchange Traded Funds: Units of Exchange Traded Funds will be valued at the closing prices on the BSE. If the units are not traded on the BSE, then the price available on any other stock exchange will be considered. If price are not available on any stock exchange, then the NAV per unit will be used for valuation.
3. Convertible debentures: The non-convertible and convertible components of convertible debentures and bonds shall be valued separately. The nonconvertible component would be valued on the same basis as would be applicable to a debt instrument. The convertible component shall 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 later instrument can be adopted after an appropriate discount for the non-tradability of the instrument during the period preceding conversion. While valuing such instruments, the fact whether the conversion is optional will also be factored in.
4. Convertible Preference Share will be valued at the traded prices. If it is not traded it will be valued based on the procedures as Valuation Committee may decide.

#### **D. Exceptional events:**

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

Such exceptional events where current market information may not be available / sufficient for valuation of securities are classified as under:

- a. Policy announcements by the Reserve Bank of India (RBI), the Government or any Regulatory body like (SEBI/IRDA/PFRDA).
- b. Natural disasters or public disturbances that may impact the functioning of the capital markets.
- c. Absence of trading in a specific security or similar securities.
- d. Sufficient market information may not be available for the Valuation of Securities.
- e. Significant volatility in the capital markets.
- f. Deviation from the indicative haircuts and/or the valuation price

#### **E. Deviation from Valuation guidelines:**

1. In case AMC decides to deviate from the valuation price given by the valuation agencies, the detailed rationale for each of the instance of deviation shall be recorded by 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 valuation agencies and the impact of such deviation on the 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 under paragraph D 2 above shall be disclosed immediately and prominently, under a separate head on the AMC Website.
4. Further, while disclosing the total number of instances of deviation in the monthly and half yearly portfolio statements, AMC will disclose exact link to their website for accessing the information at par D 3.

#### **F. Inter scheme Transfers**

Inter-scheme transfers will be done in line with regulatory requirements and applicable internal policies as determined by the Valuation Committee as described below-

<b>Security Type</b>	<b>Inter scheme Policy</b>
Listed Equity Shares	Inter scheme to be done on latest quote for a particular security on primary stock exchange.
Debt & Money Market Securities (Government Securities/ Treasury bills/Commercial Paper/ Certificate of Deposit /	i. IST of Securities will be done as per the average prices provided by AMFI approved agencies currently CRISIL & ICRA.



Bonds/Zero Coupon Bonds/ Bills/Floating rate securities/Securitization, etc.)	<p>ii. If prices from the valuation agencies are received within the pre-agreed TAT as per AMFI, an average of the prices so received shall be used for IST pricing.</p> <p>iii. If price from only one valuation agency is received, that price may be used for IST pricing.</p> <p>iv. If prices are not received from any of the valuation agencies, AMC may determine the price for the IST, in accordance with Clause 3 (a) of Seventh Schedule of SEBI (Mutual Funds) Regulations, 1996</p>
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### **G. Periodic Review**

The Valuation Policy shall be reviewed at least annually and any modification shall be approved by the AMC and Trustee Boards. The Valuation Policy shall also be reviewed by Independent Auditors at least once in a Financial Year to ensure the appropriateness of the valuation methodologies.

## **Annexure 1**

### **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.

<b>Residual Tenure of Bond to be priced</b>	<b>Criteria for similar maturity</b>
Up to 1month	Calendar Weekly Bucket
Greater than 1month to 3 months	Calendar Fortnightly Bucket
Greater than 3 months to 1year	Calendar Monthly Bucket
Greater than 1year 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, 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 I 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 does 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
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 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 semi liquid; >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	<b>Segmentation of corporate</b> The entire corporate sector is first categorised across following four

	<p>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> <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.</p>
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 1month 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</li> </ol>



	<p>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.</p> <p>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</p>
Step 4	<p>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.</p> <p>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.</p> <p>3. Residual tenure of the securities of representative issuers shall be used for construction of yield curve.</p>

#### **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 (Volume Weighted Average Yield) 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 I 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/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.

**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

a) Securities with Put option/(s): Once the option is exercised the security would be valued to Put date (being the deemed maturity date) and would follow the valuation principles as applicable for securities. In case of securities with residual maturity > 30 days post exercising the Put and prices not provided by valuation agencies, the securities shall be valued on the basis of guidelines provided by the Investment Committee.

b) Securities with Call option/(s): Once the option is exercised the security would be valued to Call date (being the deemed maturity date) and would follow the valuation principles as applicable for securities. In case of securities with residual maturity > 30 days post exercising the Call and prices not provided by valuation agencies, the securities shall be valued on the basis of guidelines provided by the Investment Committee.

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.

This Policy approved in the Board Meeting held on February 27, 2021.