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Policy on polling process for Money Market and Debt securities

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Objective:

This Policy on Governance of the Polling Process is prepared in accordance with SEBI Circular SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019 and AMFI Best Practices Guidelines Circular No.83/2019-20 dated November 18, 2019 with an objective to enhance the quality of valuation of fixed income securities.

Senior official responsible for polling:

The Fund Manager – Fixed Income shall be responsible for polling.

Role and responsibilities of persons participating in the polling

The primary responsibility of providing valuation would lie with the Fund Manager.

Fund Manager will participate in the polling process conducted by SEBI approved valuation agencies (such as CRISIL, ICRA) as poll submitters and submit the quotes whenever the valuation agencies seek to participate.

Before participating in the polling, if the Fund Manager has any personal interest in the security, he should not participate in the polling to avoid any conflict of interest. The CEO shall then designate other official for participation.

Polling shall not be used to inappropriately influence the market price or levels.

After polling, Fund Manager shall submit the polling details in the format prescribed to the Valuation Committee of AMC.

Process of participating in the polling exercise

Response to the polls would be given on the basis of market quotes / Bloomberg valuation / traded levels or by way of internal assessment based on the valuation policy of the AMC.

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.

In the case of non-participation in the polling process, detailed reason for the same shall be recorded.

Reporting and review

All polling done shall be reported to the Board of AMC and Trustees at their subsequent meetings for review.

Business continuity arrangements

The information, conducted through poll, shall be preserved in the database provided by the Information Technology Department and retrieved for inspection and audit purpose.

Maintenance and preservation of records

All polling done shall 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.)

The AMC shall follow the Guidelines on polling issued by AMFI in consultation with SEBI.

Back Ground:

Pursuant to SEBI circular no. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019 regarding Valuation of money market and debt securities, AMFI had issued guidelines on Polling process for money market and debt securities by valuation agencies and on the responsibilities of Mutual Funds in the polling process, as part of the aforesaid waterfall approach

As per Clause 2.2.5.3 of the aforesaid SEBI circular, AMCs need to have a written policy, approved by the Board of AMC and Trustees, on governance of the polling process.

Guidelines on Polling Process for Money Market and Debt Securities:

The Guidelines on polling issued by AMFI in consultation with SEBI are as under:

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 repolling. Any such feedback shall be duly recorded by the valuation agencies, including the reason for the challenge, results of repolling 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 mis-used 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.