

Wealth Company Asset Management Holdings Private Limited

Investment Valuation Policy

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INTRODUCTION

The Securities and Exchange Board of India (SEBI) has introduced Investment Valuation Norms and Accounting Policies in line with the SEBI (Mutual Funds) Regulations, 1996, which have been updated over time. The Eighth Schedule titled “Investment Valuation Norms” of the regulations (regulation 25(19) and 47) and SEBI circulars outline the norms, methodology, and guiding principles for assessing the value of investments held by Mutual Fund schemes. These Valuation Norms are mandatory for evaluating securities.

According to the SEBI Circular MFD/CIR No.010/024/2000, dated January 17, 2000, all Asset Management Companies (AMCs) are required to establish a Valuation Committee to oversee their investment valuation procedures. Typically, the Valuation Committee consists of the Chief Operating Officer (COO), Chief Investment Officer (CIO), Chief Executive Officer (CEO), Chief Risk Officer (CRO), Head of Operations and Compliance Officer .

Every year, the Valuation Committee reviews the investment policies. The Head of Compliance documents the outcomes and discussions of the meeting. If there’s a change to the current valuation policies, the Valuation Committee must suggest it, and it must be approved by the Board of Wealth Company Asset Management Holdings Private Limited (WCAMHPL) and Pantomath Trustee Private Limited (PTPL).

This policy outlines the procedures and methods to be used for determining the value of instruments and investments by AMC. It also specifies the criteria to be used for accounting valuation, and it is subject to review and revision as necessary.

Investments held by schemes of the Fund would normally be valued according to the Valuation Guidelines specified by SEBI from time to time. In case of any conflict between the Principles of Fair Valuation and Valuation Guidelines issued by SEBI from time to time, the Principles of Fair Valuation shall prevail.

PURPOSE

The purpose of the Valuation policy and procedures (‘the Policy’) adopted by the Investment Manager for valuation of investments made by the Scheme(s) is primarily to-

- describe the methodologies used for valuing each type of securities/assets held by the Scheme(s);
- ensure that the securities/assets are consistently valued as per the approved methodology/ies.
- ensure the appropriateness and accuracy of the methodologies used and its effective implementation in valuing the securities/assets;
- describe the process to deal with the exceptional events;
- seek to address the conflict of interest;
- devise process to detect and prevent incorrect valuation;
- ensure transparency by making appropriate disclosures.

Therefore, the primary objective of the Policy is to:

- a) ensure fair treatment to all investors (including existing as well as new investors) seeking to purchase or redeem the units of the Scheme(s) of The Wealth Company Mutual Fund at all points of time.
- b) (b) value the investments in a manner so as to reflect realizable value of the securities / assets and to ensure fair treatment to all investors.

I. EQUITY AND EQUITY RELATED SECURITIES

A. TRADED SECURITIES

1. Equity and Equity related securities / Preference Shares

AMC has chosen the National Stock Exchange (NSE) as the Principal Stock Exchange for all its equity and equity-related securities.

For Index Funds, the Principal Stock Exchange will be the Exchange where the benchmark index has been created.

Valuation of Traded Securities:

- a) Traded securities will be valued at the day's closing price on the NSE.
- b) If a security is not traded on the NSE on a particular day, the closing price on the Bombay Stock Exchange Limited (BSE) will be considered for valuation.
- c) If a security is not traded on any stock exchange on a specific valuation day, the value at which it was traded on the National Stock Exchange or the Bombay Stock Exchange, whichever is earlier, on the preceding day will be used. However, this date must not be more than thirty days prior to the valuation date.
- d) If equity securities are not traded on any stock exchange for a period of thirty days prior to the valuation date, the scrip must be treated as 'non-traded' and valued as a non-traded security according to the separate norms provided in the Equity Section Non-Traded.
- e) If equity securities are not listed on any stock exchange, the scrip will be valued as per the separate norms provided in the Equity Section Non-Traded.

2. Derivatives – Equity/Index Options and Futures

- a) Equity/Index Options:
 - i. Market values of traded option contracts shall be determined based on the exchange on which they are originally contracted. For instance, if an option is

contracted on the NSE, its market value would be calculated using the Settlement Price of the NSE.

- ii. The exchanges provide daily settlement prices for all derivatives positions. These settlement prices will be adopted for valuing positions that are not traded.

b) Equity/Index Futures:

- i. Market values of traded futures contracts shall be determined based on the exchange on which they are originally contracted. For example, if a futures position is contracted on the NSE, its market value would be calculated using the settlement price of the NSE.
- ii. The exchanges provide daily settlement prices for all derivatives positions. These settlement prices will be adopted for valuing positions that are not traded.

B. NON-TRADED/THINLY TRADED SECURITIES

1. Application Money for Primary Market Issue

Application money should be valued at cost up to 30 days from the closure of the issue or traded price whichever is earlier. If the security is not allotted / traded within 30 days from the closure of the issue, application money is to be valued as per the directives of valuation committee, which shall be ratified in the next board meeting. Rationale of valuing such application money should also be recorded.

2. Thinly Traded Equity/Non-Traded

Thinly Traded:

When trading in an equity or equity-related security (like convertible debentures, equity warrants, etc.) within a month, the trade value is less than ₹ 5,00,000, and the total volume is less than 50,000 shares, it's considered a thinly traded security and valued accordingly. To determine if a security is thinly traded, only volumes traded on the NSE and BSE are taken into account.

If a share isn't listed on stock exchanges that provide such information, the Fund must conduct its own analysis to determine if it's thinly traded. If it is, the Fund will value it accordingly.

Thinly traded securities will be monitored on a calendar month basis, not a rolling basis. If a security in the Fund's portfolio is classified as thinly traded based on the above criteria, its fair value will be calculated as mentioned below, disregarding the primary and secondary stock exchange prices. This fair valuation will remain in effect for the entire month, even if the security's volume and value exceed the limit in the current month.

Non-Traded:

If equity securities are not traded on the NSE and BSE for a period of thirty days before the valuation date, the scrip must be considered as a "non-traded" scrip.

Equity Shares:

Based on the latest audited Balance Sheet, net worth will be calculated as follows:

- i. Net Worth per share = [Share Capital + Reserves (excluding Revaluation Reserves) – Misc. expenditure and Debit Balance in P&L A/c] / Number of Paid-up Shares. This calculation will be based on the latest available audited balance sheet.
- ii. The average capitalization rate (P/E ratio) for the industry, based on either NSE or BSE data, will be taken and discounted by 75%. Only 25% of the industry average P/E will be considered as the capitalization rate (P/E ratio). The earnings per share (EPS) of the latest audited annual accounts will be used for this purpose.
- iii. The value calculated based on the net worth value per share and the capital earning value will be averaged and further discounted by 10% to account for thinly. This will result in the fair value per share.
- iv. If the EPS is negative, the EPS value for that year will be taken as zero to calculate the capitalized earnings.
- v. If the latest balance sheet of the company is not available within nine months of the year's close, unless the accounting year is changed, the shares of such companies will be valued at zero.
- vi. If an individual security accounts for more than 5% of the total assets of the scheme, an independent valuer will be appointed to value the security.
- vii. To determine if a security accounts for more than 5% of the total assets of the scheme, it will be valued using the above procedure. The proportion of the security to the total net assets of the scheme to which it belongs will then be compared on the date of valuation.

Convertible Debentures:

In the case of convertible debentures and bonds, the non-convertible and convertible components would be valued separately. The non-convertible portion would be valued using the same basis as applicable to a debt instrument. Conversely, the convertible component would be valued based on the same basis as would apply to an equity instrument.

If, after conversion, the resulting equity instrument were traded at par with an existing equity instrument that is currently traded, the value of the later instrument could be adopted after applying an appropriate discount for the instrument's non-tradability during the period preceding conversion. While valuing such instruments, it's essential to consider the fact that conversion is optional. The appropriate discount should be approved and factored into the valuation process.

The value of the optional conversion shall be determined as follows:

- If the option to exercise lies with the issuer, the lower of the exercised value and the unexercised value shall be taken.
- If the option to exercise lies with the investor, the higher of the exercised value and the unexercised value shall be taken. The valuation shall be approved by the Valuation Committee.

3. Unlisted Equity

These guidelines are similar to those issued by SEBI for non-traded or thinly traded securities, except for the following:

Computation of Net worth per share as lower of (a) and (b):

(a)

- Net worth of the company = Paid-up share capital + Reserves other than Revaluation Reserve – Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets, and accumulated losses.
- Net worth per share = (Net worth of the company / Number of paid-up shares).

(b)

- Net worth of the company = Paid up capital + Consideration on exercise of Option/Warrants received/receivable by the company + free reserves other than Revaluation reserve – Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses.
- Net worth per share = (Net worth of the company / {Number of paid-up shares + number of shares that would be obtained on conversion/exercise of outstanding warrants and options}). If the net worth of the company is negative, the share should be marked down to Zero.

(c)

- The lower of (a) and (b) above shall be used for calculation of Net Worth per share and for further calculation in (c) below.
 - Average capitalisation rate (P/E ratio) for the industry based upon either BSE or NSE data (which shall be followed consistently and changes, if any, noted with proper justification thereof) shall be taken and discounted by 75 per cent. i.e. only 25 per cent of the industry average P/E shall be taken as capitalisation rate (P/E ratio). Earnings per share (EPS) of the latest audited annual accounts will be considered for this purpose.
 - Computation of fair value per share to be considered for valuation at 15 % discount for unlisted security.

$$[(\text{Net worth per share} + \text{Capitalised value of EPS}) / 2] * 0.85$$
 (all calculations shall be based on audited accounts)
 - In case the latest balance sheet i.e., balance sheet prepared within nine months from the close of the accounting year of the company, is not available (unless the accounting year is changed) the shares should be valued as zero.
 - If the networth of the company is negative, the share would be marked down to zero.
 - At the discretion of the AMC/valuation committee and with the approval of the trustees, unlisted equity scrip may be valued at a price lower than the value derived using the aforesaid methodology.

4. Suspended Security

- In case trading in an equity security is suspended for trading on the stock exchange, the last traded price would be considered for valuation of that security upto 30 days.
- If an equity security remains suspended for trading on the stock exchange for more than 30 days, then it would be considered as non-traded and valued accordingly.

5. Non-Traded Rights Entitlements

- a) Until they are traded, post the rights renunciation period, the value of the “rights” entitlement would be calculated as per the SEBI prescribed formula stated below:

$$V_r = n/m * (P_{ex} - P_{of})$$

where

V_r = Value of Rights

n = Number of rights offered

m = Number of original shares held

P_{ex} = Ex-right price

P_{of} = Rights Offer price

Ratio of Rights i.e. (n/m where n = No. of Rights offered and m = No. of original shares held) will be adjusted in the quantity directly while booking the Rights and hence not considered again for valuation.

- b) Where the rights are not treated pari-passu with the existing shares, suitable adjustments would be made to the value of rights. Where it is decided not to subscribe for the rights but to renounce them and renunciations are being traded, the rights would be valued at the renunciation value.
- c) In case original shares on which the right entitlement accrues are not traded on the Stock Exchange on an ex-right basis, right entitlement should not be recognised as investments.
- d) Where right entitlements are not traded and it was decided not to subscribe the rights, the right entitlements have to be valued at zero.
- e) 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.
- f) Post allotment of the subscription amount for the rights entitlement, it will be valued in line with the normal valuation methodology for valuation of equities.

6. Non-Traded Warrants

Warrants can be valued at the value of the share which would be obtained on exercise of the Warrant after applying appropriate discount as decided by valuation committee prorated on a monthly basis after reducing the exercise price / issuance price from the closing price of the underlying cash equity security.

If the amount payable on exercise of the warrants is higher than the value of the share, the value of the warrants should be taken as zero.

Value of warrant = (Value of underlying shares – exercise price).

7. Non-Traded Preference Shares

Non traded preference shares shall be valued in good faith depending upon the type of the preference Share and after considering illiquidity discount, if any. Valuation of non-traded

preference shares would depend on the terms of issue of preference shares. i.e., convertible/non-convertible.

- Convertible preference shares should be valued like convertible debentures
- Non-convertible preference shares should be valued like non-convertible debentures.
- In case, dividend is not received, it would be treated as NPA.

8. Shares on De-merger

On de-merger following possibilities arise which influence valuation

Both the shares are traded immediately on de-merger: In this case, shares of both the Companies are valued at respective traded prices.

Shares of only one company continued to be traded on de-merger: In case one entity is demerged into two or more entities and one of those entities continues to be listed, the value of unlisted entity(ies) will be difference between the closing price of the security on the ex-date (after demerger) and closing price of the security on previous trading day (before demerger) that continues to be listed. The difference in price of two dates will be the valuation price of the unlisted entity(ies) proportionately, till they are listed and traded on a stock exchange. The cost price of new entity/entities would be derived proportionately from the cost price of parent entity.

In case the value of the traded security of de-merged entity is equal to or in excess of the value of that entity before de-merger, then the security of the non-traded entity will be valued at zero.

In case an unlisted security is not listed within a period of 30 days from the ex-date, the valuation price derived for the demerged security will be reviewed on expiry of 30 days.

Both the shares are not traded on de-merger: The price of the shares of the Company one day prior to ex-date of de-merger will be bifurcated over the de-merged shares in the ratio of cost of shares of each demerged entity or on the basis of net assets transferred if the same is available from the Company and any other relevant factors.

In case shares of both the companies are not traded for more than 30 days, these are to be treated as unlisted security and valued accordingly.

On merger/demerger, in case the company specifies any regulations/ method for cost bifurcation or valuation the same will be adopted. In case the above methodology does not derive the fair valuation of de-merged entities; the same may be determined by the Valuation Committee on case-to-case basis.

9. Merger/ Amalgamation:

The valuation of the resulting company would be determined by the valuation of the merging or amalgamating company immediately before the ex-date of the merger or amalgamation.

- In the case of listed merging or amalgamating companies, the valuation of the resulting companies would be the sum of the valuations of the entities immediately prior to the merger date. However, if a listed company merges into an unlisted surviving company,

the surviving company should be valued at the traded value of the merging company immediately before the merger.

For example:

1. If Company A merges with Company B to form Company C, Company C would be valued at the sum of the valuations of A and B.
 2. If Company A, a listed company, merges with Company B, an unlisted company, Company B would be valued at the traded price of Company A immediately before the merger.
- In the case of one of the merging or amalgamating companies being unlisted, the valuation of the resulting companies would be based on fair valuation principles as guided by the valuation committee.
 - If the above companies remain unlisted for more than three months, an illiquidity discount may be applied to the derived prices based on the market capitalization of the issuer. The discount rates would be 5%, 10%, and 15% for large-cap, mid-cap, and small-cap companies, respectively.
 - In the case of listed companies, the valuation committee may decide on a fair value other than the ones mentioned above, considering the specific facts of each case on a case-by-case basis. Further guidance from the valuation committee would be sought for any exceptional cases not covered in the above guidelines.

10. Partly Paid-up Equity Shares

Non-traded: If traded, the value of fully paid shares shall be reduced by the uncalled liability per share to derive the price of non-traded partly paid shares.

If fully paid-up shares are not traded, the valuation principles for valuing non-traded equity shares shall be applied to fully paid-up on-traded shares (with appropriate illiquidity discounts) and then reduced by the uncalled liability per share to determine the value of non-traded partly paid shares.

Thinly Traded: Partly paid shares should be valued at the lower of the following two prices:

- The current closing price per share of fully paid-up shares minus the uncalled amount per share of partly paid shares, and
- The closing price of the partly paid share if it has not been traded on any specific valuation day (not exceeding the last 30 days).

11. Infrastructure Investment Trust (InvIT) and Real Estate Investment (REIT)

On a valuation day, traded units of InvIT/REITs are to be valued at the last quoted closing price on the primary stock exchange.

When on a particular valuation day, units of InvIT/REITs have not been traded on the primary stock exchange; the value at which it is traded on secondary stock exchange will be used.

When units of InvITs and REITs are not traded on any stock exchange on a particular valuation day, the value at which these were traded on the selected stock exchange or any other stock exchange,

as the case may be, on any day immediately prior to valuation day, shall be considered for valuation provided that such date is not more than thirty days prior to the valuation date.

Where units of InvITs and REITs are not traded on any stock exchange for a continuous period of 30 days then the valuation for such units of InvITs and REITs will be determined by the Valuation Committee in consultation with the Internal Auditors or independent valuation agencies as deemed appropriate by the Valuation Committee from time to time.

In addition to the above, if the valuation of units of InvITs and REITs is provided by the independent agency as approved by AMFI, AMC may get into an arrangement with such agency to provide security level price for Valuation.

12. Security Lending & Borrowing (SLB)

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

13. Other Instruments

In the event of any other type of capital corporate action event, the same shall be valued at a fair price on a case-by-case basis, subject to the approval of the board or the valuation committee.

II. INVESTMENT GRADE MONEY MARKET AND DEBT SECURITIES

A. MONEY MARKET AND DEBT SECURITIES

Money Market and Debt Instruments include Certificates of Deposit (CDs), Fixed Coupon Bonds, Zero Coupon Bonds, Pass-Through Certificates, Floating Rate Securities (FRNs), Commercial paper, and Bank Rate Discounted Securities (BRDS), among others.

These instruments shall be valued at an average of their security level prices obtained from AMFI approved valuation agencies (i.e CRISIL & ICRA).

- In the event that the security level prices provided by valuation agencies are unavailable for a new security (which is currently not held by any Mutual Fund), the security may be valued at the purchase yield on the date of allotment or purchase.
- The valuation Committee shall be responsible for monitoring abnormal situations and market disruptions that may prevent the obtainability or adequacy of current market

information for the valuation of securities. These cases shall be reported to the Board from time to time.

- Any changes in the policy due to clarification or communication from AMFI or internal sources shall be communicated to the Board on a regular basis.

B. OTHER MONEY MARKET AND DEBT SECURITIES

1. Government Securities

Central Government Securities (CGs), State Development Loans (SDLs), Treasury Bills, Cash Management Bills, and other securities shall be valued based on average of the security level prices obtained from valuation agencies.

2. Deposits

Deposits with banks shall be valued at the cost plus accrual basis. In the event of a prepayment penalty, the accrual rate for that period would be the applicable rate minus any prepayment penalty.

3. Tri-Party Repo (TREPS)/Reverse Repo/Corporate Bond Repo

Valuation of repurchase (repo) transactions including TREPS with tenor of up to 30 days except for overnight repos shall also be valued at mark to market basis based on Valuation provided by Valuation Agencies. The same should be accordance to SEBI Circular SEBI/HO/IMD/IMD-I PoD-1/P/CIR/2024/163 dated November 26, 2024.

However, if the security level prices provided by valuation agencies are unavailable (which is currently not held by any Mutual Fund), then these securities will be valued at the purchase yield on the date of purchase.

4. Securities purchased on Private Placement Basis

In the case of securities purchased on a private placement basis, if valuation agencies provide the security prices, they should be valued or priced accordingly.

If a security is purchased on a private placement basis, its valuation will be based on the Purchase Yield on the date of purchase. Subsequently, the valuation will be conducted at the average of the security's level prices obtained from valuation agencies.

5. Securities with Put/Call Options

The embedded securities option would be valued at the following:

a) Securities with call option:

The securities with call options shall be valued at the lower of the value calculated by valuing the security to its final maturity and valuing the security to the call option. If there are multiple call options, the lowest value obtained by valuing the security to each call date and valuing it to the maturity date is to be considered the instrument's value.

b) Securities with Put option:

The securities with a put option shall be valued at the higher of the value calculated by valuing the security to its final maturity and valuing the security to the put option. If there are multiple put options, the highest value obtained by valuing the security to each put date and valuing it to the maturity date is to be considered the instrument's value.

c) Securities with multiple put options present ab-initio

In the case of securities with multiple put options present from the outset, where the put option is factored into the security's valuation by the valuation agency, if the fund does not exercise the put option while exercising it would have favoured the scheme, the following steps must be taken:

- i. The mutual fund (MF) must provide justification for not exercising the put option to the valuation agencies (AMC and Trustee Board) before the last date of the notice period.
- ii. The valuation agencies should not consider the remaining put options for the purpose of valuing the security.

Put option will be considered in favour of the scheme if the valuation price, ignoring the put option, yields a return of more than 30 basis points (bps) over the contractual yield or coupon rate.

d) Securities with both Put and Call option on the same day:

Only securities with put and call options on the same day and having the same put and call option price will be deemed to mature on that put or call date and valued accordingly. In all other cases, the cash flow of each put or call option will be evaluated, and the security will be valued based on the following steps:

- i. Identify a 'Put Trigger Date': This is the date when the 'price to put option' is the highest compared to other put options and the maturity price.
- ii. Identify a 'Call Trigger Date': This is the date when the 'price to call option' is the lowest compared to other call options and the maturity price.
- iii. If neither a Put Trigger Date nor a Call Trigger Date ('Trigger Date') is available, the valuation will be done based on the maturity price.
- iv. If only one Trigger Date is available, the valuation will be done based on that Trigger Date.
- v. If both Trigger Dates are available, the valuation will be done based on the earlier Trigger Date.

If a Mutual Fund fails to exercise a put option that would have favoured the scheme, the Mutual Fund must provide a justification to the Valuation Agencies, the Board of AMC, and the Trustee Co. before the end of the notice period.

The Valuation Agencies should not consider the remaining put options when valuing the security.

The put option is considered in favour of the scheme if the valuation price, excluding the put option under evaluation, yields more than the contractual yield or coupon rate by 30 basis points.

6. AT-1 Bonds and Tier-2 Bonds

Valuation of AT-1 and Tier II bonds issued under Basel III framework. AT-1 / Tier II bonds will be valued at average of the security level prices provided by Valuation Agencies. For arriving at security level pricing, waterfall approach to be followed by Valuation agencies is annexed as follows:

1. Reference is drawn to clause 9.3.1.1 and clause 9.4.2 of the Master Circular dated June 27, 2024 for Mutual Funds ("Master Circular"), on valuation of bonds with multiple call options.
2. National Financial Reporting Authority (NFRA), in its report to Department of Economic Affairs, Ministry of Finance, has recommended that since the market practice for AT-1 bonds has been observed to trade at or quote prices closer to Yield to Call (YTC) basis, valuation of AT-1 Bonds on Yield to Call basis (adjusted with appropriate risk spreads) will be consistent with the principles of market-based measurement under Ind AS 113.
3. NFRA, in its report, has further stated that the above recommendation on YTC methodology is confined only to the interpretation of Ind AS 113 with reference to the valuation of AT-1 bonds and the issue of deemed maturity date for other purposes is outside NFRA's remit.
4. In view of the above, to align the valuation methodology with the recommendation of NFRA, it has been decided that the valuation of AT-1 Bonds by Mutual Funds shall be based on Yield to Call.
5. For all other purposes, since liquidity risk of perpetual bonds is required to be suitably captured, deemed maturity of all perpetual bonds shall continue to be in line with the clause 9.4.2 of the Master Circular

I. Deemed Residual Maturity of Bonds

Deemed Residual Maturity for the Purpose of Calculation of Macaulay Duration for existing as well as new perpetual bonds issued:

Time Period Bonds (Years)#	Deemed Residual Maturity of Base III AT-1
Till March 31, 2022	10
April 01, 2022 – September 31, 2022	20
October 01, 2022 – March 31, 2023	30
March 31, 2023, onwards	100

the residual maturity will always remain above the deemed residual maturity proposed above

Time Period	Deemed Residual Maturity of Basel III Tier II Bonds (Years)
April 01, 2021 – March 31, 2022, onwards	10 years or contractual maturity whichever is earlier April 01, 2022, Contractual Maturity

The Macaulay Duration is proposed to be calculated as under for Tier II bonds:

1. If the issuer does not exercise call option for any ISIN, then maturity of bonds to be considered as 100 years from the date of issuance of AT-1 bonds and contractual maturity of Tier II Bonds for all the ISINs of the said issuer.
2. If the non-exercise of call option is due to financial stress or in case of adverse news, the same must be reflected in the valuation.

II. Guidelines for Valuation

1. Form two types of ISINs:
 - a) Benchmark ISINs (a non- benchmark ISIN can be linked to only one benchmark ISIN. Currently, SBI ISINs happens to be the benchmark ISINs across all maturities for AT-1 Bonds.)
 - b) Non-benchmark ISINs (Will be divided into multiple groups based on similar issuer and similar maturity).
 - c) The groups will be decided in consultation with valuation agencies. The two main criteria envisaged to be used here would be Tier 1 / Tier 2 ratings of the ISINs / Issuers, and the spread range in which the group of ISINs / Issuer's trade over the benchmark.
2. Take a look back period for trade recognition as under:
 - a) 15 working days for benchmark ISINs
 - b) 30 working days for non- benchmark ISINs
 - c) This will be revised to 7 working days for benchmark ISIN and 15 working days for non- benchmark ISINs from October 01, 2021.

Note 1

- a) If the ISIN gets traded, the traded YTM will be taken for the purpose of valuation.
- b) If 1 ISIN of the issuer trades all other ISINs of issuers will be considered as traded but with necessary adjustment of spread to YTM
- c) If none of the ISIN of the issuer gets traded, the trade of similar issuer in the group will be taken to valuation however with necessary adjustment of spread to YTM of similar issuer similar maturity. If none of the ISIN in a group gets traded on any particular day, an actual trade in a look back period will be seen.
- d) If there is an actual trade in look back period the security will be considered as traded and valued with necessary adjustment of spread to YTM. According to this valuation will be done based on the trade of issuer, trade of similar issuer and as an additional layer a look back period of is requested. It is confirmed that spread over YTM will be taken without any adjustment of modified duration to call.

Note 2

As the valuation is based on trade during the look back period, it is confirmed that a spread will be adjusted to reflect adverse news, change in credit rating, interest rate etc., which has bearing on the yield of ISIN being valued.

Note 3

If there is no actual trade of any ISIN of the issuer as well as similar issuer during look back period also then valuation will be done by taking spread over matrix and/or polling in line with the waterfall mechanism prescribed by AMFI.

Note 4

AT-1 bonds and Tier 2 bonds being different categories of bonds, the valuation of these bonds will be done separately (i.e.) ISIN of AT-1 bond traded will not mean that ISIN of Tier-2 bonds of the same issuer have also traded. However, if any issuer does not exercise call option for any ISIN, then the valuation and calculation of Macaulay Duration should be done considering maturity of 100 years from the date of issuance for AT-1 Bonds and Contractual Maturity for Tier 2 bonds, for all ISINs of the issuer

III. OTHER SECURITIES

1. Domestic / Overseas Mutual Fund Units and Alternative Investment Fund (AIF) Units (including units of ETFs):

I. Domestic Mutual Fund Units and Alternative Investment Fund (AIF) Units:

- i. **Listed & Traded:** Units shall be valued at the closing traded price available on the stock exchanges (NSE or BSE) as on the valuation date
- ii. **Unlisted and Listed but not traded:** Units shall be valued at the last declared NAV on AMFI website or CDMD Fund's website in case of AIF units as on the valuation date.

II. Overseas Mutual Funds Units

- i. **Listed & Traded:** Units shall be valued at the closing traded price available on the stock exchanges (on which the respective Overseas ETF is listed) as on the valuation date. In case an Overseas ETF is listed on more than one stock exchange across country, then AMC shall select the principal stock exchange (i.e. appropriate stock exchange) for valuation and record the same in writing. Any subsequent change in the stock exchange used for valuation shall be backed by reasons for such change, recorded in writing and placed at the meeting of the Valuation Committee.
- ii. **Unlisted and Listed but not traded:** Units shall be valued at their last available NAV as on the valuation date.

2. Interest Rate Futures (IRF)

- Market values of traded futures contracts shall be determined based on the exchange on which the contract was originally traded. For instance, if a futures position was contracted on the NSE, its value would be calculated using the settlement price on the NSE. However,

the price of the same futures contract on the BSE cannot be used for valuation unless the contract itself was traded on the BSE.

- The Exchanges provide daily settlement prices for all derivative positions. These settlement prices will be adopted for valuing positions that are not traded.

3. Commodities in case of Exchange Traded Fund

Valuation of Gold as prescribed by SEBI Regulations:

The gold held by a gold exchange traded fund scheme shall be valued at the AM fixing price of London Bullion Market Association (LBMA) in US dollars per troy ounce for gold having a fineness of 995.0 parts per thousand, subject to the following:

- i. Adjustment for conversion to metric measures as per standard conversion rates;
- ii. Adjustment for conversion of US dollars into Indian rupees as per the RBI reference rate declared by the Financial Benchmarks India Private Limited (FBIL); and
- iii. Addition of –
 - a. Transportation and other charges that may be normally incurred in bringing such gold from London to the place where it is actually stored on behalf of the mutual fund; and
 - b. Notional customs duty and other applicable taxes and levies that may be normally incurred to bring the gold from London to the place where it is actually stored on behalf of the mutual fund:

Provided that the adjustment under clause (iii) 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.

The premium / discount shall be decided by comparing the domestic price i.e. MCX spot price with the valuation price. In case MCX spot price is not available, any other appropriate source may be used as agreed upon by valuation committee to determine the domestic price.

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

If the gold acquired by the gold exchange traded fund scheme is not in the form of standard bars, it shall be assayed and converted into standard bars which comply with the good delivery norms of the LBMA and thereafter valued in terms of paragraph (I)

Valuation process flow shall be as below:

- i. The process of valuing Gold shall be carried out in accordance with the guidelines set out by SEBI, with the fixing price available on the LBMA site.
- ii. The Valuation Committee of the AMC shall review and determine the Premium/Discount and fixing charges for the valuation of Gold on an ongoing basis.

- iii. The LBMA Gold price is quoted in USD/Oz for 999 fineness and must be converted to Troy Ounces per kilogram for 995 purity using the NYMEX conversion factor. The fineness quotient must also be adjusted using the factor 0.995996 (0.995/0.999) if the gold is of 999 fineness.
- iv. The adjustment or conversion factor for ounce to kg is as below
 - *for 995 purity it is 31.99
 - *for 999 purity it is 32.12
- v. To convert USD into INR, it must be multiplied by the INR reference rate provided by Financial Benchmarks India Pvt. Ltd. or a similar agency.
- vi. Custom duty is applied per Kg.
- vii. GST is excluded from the Valuation.

Valuation of Silver as prescribed by SEBI Regulations:

The Silver held by a Silver exchange traded fund scheme shall be valued at the AM fixing price of London Bullion Market Association (LBMA) in US dollars per troy ounce for Silver having a fineness of 999.0 parts per thousand, subject to the following:

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

Provided that the adjustment under clause (iii) 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 stored on behalf of the mutual fund.

The premium / discount shall be decided by comparing the domestic price i.e. MCX spot price with the valuation price. In case MCX spot price is not available, any other appropriate source may be used as agreed upon by valuation committee to determine the domestic price.

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

If the Silver acquired by the Silver exchange traded fund scheme is not in the form of standard bars, it shall be assayed and converted into standard bars which comply with the good delivery norms of the LBMA and thereafter valued in terms of paragraph (I)

Valuation process flow shall be as follows:

- i. The LBMA Silver Fixing for the day available on the LBMA site will be used for valuation.
- ii. The premium/discount and fixing charges for such valuation shall be reviewed and determined by the Valuation Committee of the AMC.
- iii. The quoted LBMA Silver price is in USD/Oz for 999 fineness, and Troy ounces per kilogram shall be used for conversion to Kilograms, the applicable conversion factor of Troy ounces per kilogram shall be used for 999 purity.
- iv. The conversion or adjustment of ounce to kg will be as below
*for 999 purity it is 32.1507
- v. This USD amount will be multiplied with the INR reference rate provided by Financial Benchmarks India Pvt. Ltd. or any other similar agency.
- vi. Custom duty shall be fixed on a per kilogram basis
- vii. GST shall be excluded from the valuation.

If the LBMA AM fixing or FBIL reference rate is not published on any given day, the most recently available rate shall be utilized to compute the value of goods such as Silver and Gold.

4. Foreign Equity

Valuation of Investment made in Foreign Equity:

On the Valuation Day, the securities issued outside India and listed on the stock exchanges outside India shall be valued at the closing price on the stock exchange at which it is listed or at the last available traded price. However, in case a security is listed on more than one stock exchange, the AMC reserves the right to determine the stock exchange, the price of which would be used for the purpose of valuation of that security. The stock exchange once selected would be used consistently till changed by recording the reasons in writing by Board of AMC.

In case a security is not traded on valuation day, the last traded price/last available price would be used for valuation till T – 30 days. In case security is not traded for more than 30 days, the same would be valued on a fair value basis by the Valuation Committee of the AMC.

On valuation date, all assets and liabilities in foreign currency shall be valued in Indian Rupees at the RBI/FBIL reference rate as available at 05:00 p.m. on the relevant business day in India. For Currencies where RBI/FBIL reference rate is not available, Bloomberg/Reuters/any other designated agency shall be used. If required, the AMC may change the source of determining the exchange rate.

The Trustees reserve the right to change the source for determining the exchange rate. The exchange gain / loss resulting from the aforesaid conversion shall be recognized as unrealized exchange gain / loss in the books of the Scheme on the day of valuation. Further, the exchange gain / loss resulting from the settlement of assets / liabilities denominated in foreign currency shall be recognized as realized exchange gain / loss in the books of the scheme on the settlement of such assets / liabilities.

The procedure for valuing investments in foreign equities is outlined as follows:

1. Select the most appropriate stock exchange for all equity and equity-related securities held by the schemes.
2. The closing prices of securities available will be taken for valuation. If these prices are unavailable, the last traded price will be considered
- 3.

In addition to the above the accounting / valuation for currency rates is given below:

1. When investing a certain portion of the fund overseas, the purchase of foreign currency will be accounted for as the cost of purchase, thus creating an FX position in the portfolio.
2. When investing in or selling securities, the record of the purchase or sale will be logged in the portfolio currency of Indian Rupees (INR). The cost of the purchase or sale, including brokerage and other fees, will be converted to INR at the agreed exchange rate.
3. At the time of settlement, the difference between the FX reference rate on the trade date and the actual FX rate used for settlement will be classified as a gain or loss due to fluctuation in foreign exchange.
4. Every day, when the closing prices and the currency rates are received, they will be applied to the portfolio, and the unrealized capital gain and FX gain will be calculated separately.

Valuation of ADR/GDR

If a security such as ADR/GDR, etc. are traded in OTC (over the counter) market, in such cases closing price (source: Reuters/Bloomberg) in OTC market will be considered for valuation.

Non -traded ADR /GDRs shall be valued after considering prices/ issue terms of underlying security. The Valuation Committee shall decide the appropriate discount for illiquidity. Non-traded foreign security shall be valued by AMC at fair value after considering relevant factors on a case-to-case basis.

5. Market Linked Debenture and all OTC Derivatives including Interest Rate SWAPS (IRS)/Forward Rate Agreements (FRA)

Regardless of the remaining maturity, securities shall be valued at the average of the security level prices obtained from valuation agencies.

6. Convertible Debentures and Bonds

- As per the Eighth Schedule of SEBI (Mutual Fund) Regulation, the valuation method for convertible debentures and bonds prescribed by Mutual Funds will be followed. In this regard, the non-convertible and convertible components of these instruments will be valued separately. The non-convertible component should be valued based on the same principles applicable to a debt instrument. Conversely, the convertible component should be valued based on the principles applicable to an equity instrument.
- If, after conversion, the resulting equity instrument would be traded at par with an existing instrument that is currently traded, the value of the latter instrument can be adopted. However, an appropriate discount should be applied for the non-tradability of the

instrument during the period preceding conversion while valuing such instruments. Additionally, the fact that the conversion is optional should also be considered during valuation.

7. Illiquid Securities

- The aggregate value of “illiquid securities” within the scheme, which are defined as non-traded, thinly traded, and unlisted equity shares, shall not exceed 15% of the scheme’s total assets. Any illiquid securities exceeding this threshold shall be assigned a zero value.
- All funds shall disclose the scheme-wise total value and percentage of net assets held in illiquid securities on March 31st and September 30th, in addition to disclosing half-yearly portfolios to unit holders. The list of investments shall also indicate an asterisk against all such investments, which are recognized as illiquid securities.

8. Deviation from valuation guidelines

- As per the Principles of Fair Valuation outlined in the Eighth Schedule of SEBI (Mutual Funds) Regulations, 1996, Asset Management Companies (AMCs) are accountable for ensuring the accuracy and fairness of valuation and calculating the Net Asset Value (NAV) correctly. In light of this responsibility, if an AMC chooses to deviate from the valuation price provided by external valuation agencies, it must diligently record the detailed rationale behind each such instance of deviation.
- Valuation Committee is authorized to approve deviations from the Policy, if necessary, to ensure a true, fair, and accurate valuation of the referred security or asset.
- The rationale for deviation, along with pertinent information such as the ISIN, issuer name, rating, the valuation price at which the security was assessed, and the impact of the deviation on the scheme’s NAV (both in terms of absolute amount and percentage), must be promptly reported to the Board of AMC and Trustees.
- Furthermore, the rationale for deviation, along with the detailed information, shall be made immediately and prominently available on a separate section of the AMC’s website.
- Additionally, while disclosing the total number of instances of deviation in the monthly and half-yearly portfolio statements, AMCs must provide the exact link to their website for individuals to access the relevant information.

9. Money Market and Debt securities rated below Investment Grade/Default

- A money market or debt security is classified as “below investment grade” if its long-term rating, issued by a SEBI-registered Credit Rating Agency (CRA), falls below BBB or if its short-term rating is below A3.
- It is classified as “Default” if the interest and/or principal amount has not been received on the due date or when the security has been downgraded to “Default” grade by a CRA. In such cases, Mutual Funds must promptly inform valuation agencies and CRAs of any instances of non-receipt of interest and/or principal amount (part or full) in any security.

Para 2.0 of SEBI Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/41 dated March 22, 2019 provides for valuation of money market and debt securities at prices provided by the valuation agencies notified by AMFI. Till the time scrip level valuation is not available from

the agency's securities are to be valued on the basis of indicative haircuts provided by the 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. During this period if there are trades in the security it may be considered for valuation if it is lower than the price post standard haircut. The minimum trade size in such cases will be determined by the valuation agencies.

The current indicative haircuts, as determined by the valuation agencies and communicated by AMFI, are:

For senior, secured securities

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

For subordinated, unsecured or both

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

In the context of the circular, the decision to classify a rating as below investment grade will be made by considering the most conservative rating provided by the instrument's rating agency, if it has multiple ratings.

The AMC may deviate from the indicative haircuts and/or the valuation price for money market and debt securities rated below investment grade, as provided by the valuation agencies. However, this deviation must be justified and documented.

- i. The AMC must record the detailed rationale for any deviation from the price post haircuts or the price provided by the valuation agencies. Additionally, the rationale for the deviation, along with relevant details such as the security's ISIN, issuer name, rating, the price at which it was valued, the price post haircuts, or the average of the prices provided by the valuation agencies (as applicable), and the

impact of the deviation on the scheme's Net Asset Value (in amount and percentage terms) must be reported to the Board of AMC and Trustees.

- ii. Furthermore, the rationale for the deviation, along with the details, will be disclosed to investors under a separate section on the website. Moreover, the total number of such instances of deviation will be disclosed in the monthly and half-yearly portfolio statements for the relevant period. These statements will also include an exact link to the website where all such instances of deviation are available.

10. Changes in terms of Investment

While making any changes to the terms of an investment, Mutual Funds must adhere to the following conditions:

- Any changes to the terms of investment, such as extending the maturity of a money market or debt security, must be promptly reported to valuation agencies and SEBI-registered Credit Rating Agencies (CRAs) along with the reasons for these changes.
- Any extension in the maturity of a money market or debt security will treat the security as "Default" for valuation purposes.
- If the maturity date of a money market or debt security is shortened and then subsequently extended, the security will still be treated as "Default" for valuation purposes.
- Any put option inserted after the issuance of the security will not be considered for valuation purposes. The original terms of the issue will be used for valuation instead.

11. Approach for traded and non-traded money market and debt securities

SEBI, in its circular no. SEBI/HO/IMD/DF4/CIR/P/2019/102, dated September 24, 2019, on the valuation of money market and debt securities, has outlined the fundamental principles for determining traded yields by Valuation Agencies in these securities. In light of this, the following areas have been identified for the development of standardized guidelines:

- a. Waterfall mechanism for valuing money market and debt securities.
- b. Definition of tenure buckets for securities with similar maturities.
- c. Process for identifying similar issuers.
- d. Recognition of trades and outlier criteria.
- e. Process for constructing a spread matrix.

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

a) 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.

b) 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 of similar maturity
Upto 1 month	Calendar Weekly Bucket
< 1 month to 3 months	Calendar Fortnightly Bucket
< 3 months to 1 year	Calendar Monthly Bucket
< 1 year to 3 years	Calendar Quarterly Budget
< 3 years	Calendar Half-yearly or Greater Bucket

In addition to the above:

- i. 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.
- ii. 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.
- iii. 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.

c) 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.

- Issuers within same sector/industry and/or
- Issuers within same rating band and/or
- Issuers with same parent/ within same group and/or
- Issuers with debt securities having same guarantors and/or
- 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.

d) Recognition of trades and outlier criteria

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

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

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

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, 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)		
	Upto 15 days	15-30 days	< 30 days
Liquid	30 bps	20 bps	10 bps
Semi-liquid	45 bps	35 bps	20 bps
Illiquid	70 bps	50 bps	35 bps

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

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

Liquidity classification criteria – liquid, semi-Liquid and Illiquid definition

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

- Trading Volume
- 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 $\geq 50\%$ of trade days
- Semi liquid $\geq 10\%$ 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 upto 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- upto 25 bps for liquid; $>25- 50$ bps for semiliquid; > 50 bps for illiquid. (Here, spread is computed as average spread of issuer over AI+/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.

e) Process for construction of spread matrix

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

Steps	Detailed Process
Step 1	Segmentation of corporates: The entire corporate sector is first categorised across following four sectors i.e., all the corporates will be catalogued under one of the below mentioned bucket: 1) Public Sector Undertakings/Financial Institutions/Banks; 2) Non-Banking Finance Companies -except Housing Finance Companies; 3) Housing Finance Companies; 4) Other Corporates
Step 2	Representative issuers – For the aforesaid 4 sectors, representative issuers (Benchmark Issuers) shall be chosen by the valuation agencies for only higher rating (I.e., “AAA” or AA+). Benchmark/Representative Issuers will be identified basis high liquidity, availability across tenure in AAA/AA+ category and having lower credit/liquidity premium. Benchmark Issuers can be single or multiple for each sector. It may not be possible to find representative issuers in the lower rated segments however, in case of any change in spread in a particular rating segment, the spreads in lower rated segments should be suitably adjusted to reflect the market conditions. In this respect, in case spreads over benchmark are widening at a better rated segment, then adjustments should be made across lower rated segments, such that compression of spreads is not seen at any step. For instance, if there is widening of spread of AA segment over the AAA benchmark, then there should not be any compression in spreads between AA and A rated segment and so on.
Step 3	Calculation of benchmark curve and calculation of spread –

	<ol style="list-style-type: none"> 1) Yield curve to be calculated for representative issuers for each sector for maturities ranging from 1 month till 20 years and above. 2) Waterfall approach as defined in Part A (1) above will be used for construction of yield curve of each sector. 3) In the event of no data related to trades/primary issuances in the securities of the representative issuer is available, polling shall be conducted from market participants 4) Yield curve for Representative Issuers will be created on daily basis for all 4 sectors. All other issuers will be pegged to the respective benchmark issuers depending on the sector, parentage and characteristics. Spread over the benchmark curve for each security is computed using latest available trades/primaries/polls for respective maturity bucket over the Benchmark Issuer. 5) Spreads will be carried forward in case no data points in terms of trades/primaries/polls are available for any issuer and respective benchmark movement will be given
Step 4	<ol style="list-style-type: none"> 1) The principles of VWAY, outlier trades and exceptional events shall be applicable while constructing the benchmark curve on the basis of trades/primary issuances. 2) In case of rating downgrade/credit event/change in liquidity or any other material event in Representative Issuers, new Representative Issuers will be identified. Also, in case there are two credit ratings, the lower rating to be considered. 3) 3. Residual tenure of the securities of representative issuers shall be used for construction of yield curve.

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

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 quotes, 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.

The aforesaid provisions related to Waterfall approach for valuation of debt and money market securities prescribed by SEBI circular dated September 24, 2019 and AMFI circular dated November 18, 2019 shall be effective from the date of implementation of the requirements of the circular by the Valuation agencies.

12. Treatment of upfront fees on trades

- Upfront fees on all trades, including primary market trades, regardless of the name or manner of payment, shall be factored into the valuation agencies' calculations for the security's valuation.
- On the trade date, the AMCs will disclose the details of these upfront fees to the valuation agencies as part of the trade reporting process. This information will enable the valuation agencies to determine the fair valuation for that specific date.
- For accounting purposes, these upfront fees will be deducted from the cost of the investment in the scheme that made the investment.
- If upfront fees are received from multiple schemes, they will be shared on a pro-rata basis across all those schemes.

13. Investment in partly paid debentures

- a) Mutual Fund schemes shall invest in partly paid debentures only when the remaining amount is linked to clear, pre-defined events (subject to conditions precedent). For clarity, purely time-based events are not considered pre-defined. These conditions precedent should be clearly outlined in the Agreement for subscription to the debentures or Offer Document for the issue, as applicable. Conditions precedent represent clearly defined obligations or events that must be fulfilled before the investor is called upon to pay for the remaining portion of the subscription. Examples include achieving certain milestones related to the debentures' purpose, enhancing the issuer's credit rating, or meeting other financial or operational parameters of the issuer. AMCs shall not invest in partly paid debentures without any conditions precedent.
 - There should be no cross-linkages among schemes while investing in partly paid debentures. For instance, if the agreement for partly paid debentures also includes investment in another type of instrument, such as commercial paper, the AMC should ensure that the subscription to the residual part of the issue or the investment in the other instrument is made by the scheme that originally invested in partly paid debentures.
 - While investing in partly paid debentures, AMCs must ensure that the interest of one set of unitholders or schemes is not compromised at the expense of another.
 - All regulatory limits must be complied with during each part payment.
 - To avoid a situation where a Mutual Fund scheme is unable to honour future part payments, AMCs should avoid excessive concentration in partly paid debentures.
- b) Any investment in partially paid debentures must be disclosed in the monthly portfolio disclosures of the scheme. This should include, among other things, the amount contracted but not yet paid by the scheme, the dates of future pay-ins, triggers for future

pay-ins, and any other detail that the fund house believes may be of material interest to its investors.

14. Valuation of stressed issuers and perpetual bonds

Financial stress on the issuer and its ability to repay borrowings will be reflected in the valuation of securities from the date of issuance.

For the purpose of valuation, the maturity of all perpetual bonds will be treated as 100 years from the date of issuance.

15. Securities not covered under the current valuation policy

In the event that securities purchased by mutual funds don't adhere to the current valuation framework, the mutual fund must promptly inform AMFI about the situation. Additionally, at the time of investment, AMCs must ensure that the total exposure in such securities doesn't exceed 5% of the total AUM of the scheme.

AMFI has been advised that valuation agencies should ensure that the valuation of these securities is incorporated into the valuation framework within six weeks of receiving the notification from the mutual fund.

In the interim period until AMFI implements provisions to cover these securities in the valuation framework, mutual funds should value them using their proprietary model, which has been approved by their independent trustees and statutory auditors.

16. Investment in new type of securities

The Mutual Fund Scheme shall invest in new types of securities or assets only after the Board of the AMC has approved the valuation methodologies for such securities.

17. Inter-scheme transfers (IST)

a) Debt Securities:

- AMCs shall request pricing information for IST from AMFI approved valuation agencies for any money market or debt security, regardless of its maturity.
- AMFI, in collaboration with valuation agencies, shall determine a turnaround time (TAT) within which IST prices will be provided by the agencies.
- If prices from the valuation agencies are received within the pre-agreed TAT, an average of these prices will be used for IST pricing.
- If only one valuation agency provides a price within the agreed TAT, that price will be used for IST pricing.
- If prices are not received from any valuation agency within the agreed TAT, AMCs may determine the IST price in accordance with Clause 3 (a) of the Seventh Schedule of SEBI (Mutual Funds) Regulations, 1996.

Clause 3 (a) specifies that such transfers are executed at the prevailing market price for the quoted instruments on a spot basis.

b) Equity Securities

Inter-scheme transfers of equity securities would be impacted by the prevailing spot market price of the security at the time of the transfer. To achieve this, a record of the security's quoted prices on the relative stock exchange (e.g., NSE/BSE) or through the Bloomberg Terminal would be obtained. This record would include the date, time, and current quoted price. The price quoted on the stock exchange would serve as the effective price for the inter-scheme transfer.

18. Review of valuation policies

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 and keep the Board of AMC and the Board of Trustee updated in this regard.

In addition, the Valuation Committee shall have the valuation policy reviewed by the independent auditor at least once every year, to ensure continued appropriateness of the policy.

19. Consideration of price of same/similar securities

CRISIL and ICRA will evaluate the prices of similar securities under Scrip Level Valuation, as per the methodology discussed and agreed upon with the AMFI.

20. Abnormal Events

Following are some illustrative examples of events that could be classified as abnormal situations or market disruptions where current market information may not be sufficient or accurate for valuing securities:

- Significant volatility in the capital markets.
- Natural disasters or public disturbances that force the markets to close unexpectedly.
- Major policy announcements by the Central Bank, the Government, or the Regulator.
- Large redemptions.

The Valuation Committee will be responsible for monitoring unusual circumstances. In the event of abnormal situations or market disruptions, the Valuation Committee will seek the advice of the AMC Board or the Board of Directors appointed for this purpose to determine the appropriate valuation methodology for affected securities. Any such unusual circumstances will be reported to the AMC Board at the next meeting.

If the aforementioned valuation policies and procedures do not result in fair or appropriate valuations, the Asset Management Company will deviate from these policies and procedures to value assets or securities at fair value.

Any deviation from the disclosed valuation policy and procedures will be accompanied by appropriate reporting to the Board of Trustees and the Board of the Asset Management Company, as well as disclosures to investors.

21. Record keeping:

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

Above records will be preserved in accordance with the norms prescribed by the SEBI (Mutual Funds) Regulations, 1996 and subsequent amendments thereto.