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VALUATION POLICY
JM FINANCIAL MUTUAL FUND

Version – April 2023.

1. **Scope of the policy**

The investment Valuation Policy aims to provide broad valuation guidelines to be followed for each type of security. The same shall be reviewed annually by the Valuation Committee and also by an independent Chartered Accountant firm.

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

VALUATION COMMITTEE

The Valuation Committee shall take all decisions pertaining to valuation, in conformity with the policy guidelines. The constitution of the Valuation Committee is as under:

Constitution:

The Valuation Committee will comprise of the following members:
Chief Executive Officer
Chief Operating Officer
Chief Investment Officer
Chief Risk Officer
Head - Legal, Compliance & Secretarial
Fund Managers

Frequency of Valuation committee meeting:

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

Functions of the Valuation Committee:

1. to provide guidelines on valuation within the regulatory framework,
2. decide on specific cases as may be referred to the Committee,
3. appoint/recommend the appointment of third party agencies for valuation,
4. evaluate the performance of such agencies on a periodic basis,
5. review the valuation policy.

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

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

Objective of the Policy:

The objective of this Policy is to set the broad valuation norms to enable JM Financial Asset Management Limited (JMF AMC) to value the investments of the Schemes of JM Financial Mutual Fund (JMF MF) in accordance with the overarching principles of 'fair valuation' or such other principles/regulations as may be prescribed by SEBI from time to time so as to ensure fair treatment to all investors including existing investors as well as investors seeking to purchase or redeem units of mutual funds in all schemes at all points of time.

Valuation Methodologies:

- The valuation of investments shall be based on the principles of fair valuation i.e. valuation shall be reflective of the realizable value of the securities/assets.
- The methodologies for valuing different type of securities are mentioned in table below.
- Investment in any new type of security shall be made only after establishment of the valuation methodology for such type of security with the approval of the Board of JMF AMC.

Inter-scheme transfers:

The table below describes the methodology to determine the fair valuation of securities which are intended to be transferred from one scheme to another.

Conflict of Interest:

In case if any situation arises that leads to conflict of interest, the same shall be raised to the Valuation Committee and the Committee shall endeavor to resolve the same such that the valuation provides for fair treatment to all investors including existing and prospective investors.

In case of ambiguity, the Valuation Committee shall endeavor to value the securities such that the valuation provides for fair treatment to all the existing and prospective investors. However, the Committee will keep the Boards of AMC and the Trustee Company informed about its decision, in their ensuing meetings.

Exceptional events/ circumstances:

Following events could be considered as 'exceptional events/ circumstances':

- Major policy announcement by Central/State Government or Central Bank or SEBI;
- Natural disasters, public disturbances, riots, war, global events etc., that may force market not to function normally;
- Absence of trading in specific security or similar securities;
- Significant volatility in the stock markets;
- Closure of the stock market of a particular country;
- Events which lead to lack of availability of accurate or sufficient information to value the securities.

The above mentioned list is only indicative and may not reflect all the possible exceptional events/circumstances.

In case of exceptional events, the valuation committee shall assess the situation and recommend appropriate method of valuation for the impacted securities.

Deviation:

The investments of the JMF MF schemes shall be valued as per the methodologies mentioned in this Policy, which shall endeavor true and fairness in valuing the securities. However, if the valuation of any particular asset/security does not result in fair/ appropriate valuation or under exceptional circumstances, the Valuation Committee would have the right to deviate from the established policies in order to value the asset/ security at fair /appropriate value.

Deviations from the valuation policy, if any, will be informed to the AMC and Trustee Board and will be communicated to the investors vide appropriate disclosures on the Mutual Fund's website.

Review:

The Valuation Committee shall be responsible for ongoing review of the valuation methodology in terms of its appropriateness and accuracy in determining the fair value of each and every security. The Valuation Committee shall apprise the AMC & Trustee Boards, annually in terms of the effectiveness of the methodologies and deviations or incorrect valuations.

The Valuation Policy shall also be reviewed by Independent Auditors at least once a Financial Year to ensure the appropriateness of the valuation methodologies and to suggest alternative methods, if any.

Retention of records:

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

Disclosure of the policy:

The Valuation policy approved by the AMC Board shall be disclosed in Statement of Additional Information (SAI) on the Mutual Fund's website and any other document as may be prescribed by SEBI from time to time.

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The Valuation policy approved by the AMC Board shall be disclosed in Statement of Additional Information (SAI) on the Mutual Fund's website and any other document as may be prescribed by SEBI from time to time.

Valuation of Debt, Money Market Instruments and Sovereign Securities (including T-Bills, Bills re-discounting, Usance bills)

A. All non government debt securities

All non government securities irrespective of their residual maturity (including traded and non traded) are valued as per the prices (simple average) provided by the AMFI approved agencies – currently CRISIL and /or ICRA. In case security level prices given by valuation agencies are not available for a new security (which is currently not held by any Mutual Fund) then such security may be valued at purchase yield on the date of allotment / purchase (refer point no. 5 in notes section).

B. Securities which are rated below investment grade

Securities which are rated below investment grade shall be valued at the price provided by AMFI appointed valuation agencies currently CRISIL and ICRA. Where the traded price is lower than such computed price, such traded price shall be considered for the purpose of valuation.

Till such time the valuation agencies compute the valuation of securities classified as below investment grade, such securities shall be valued on the basis of indicative haircuts provided by valuation 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 in such securities after the credit event, AMC shall consider such traded price for valuation if it is lower than the price post standard haircut. The trades referred above shall be of a minimum size as determined by CRISIL & ICRA. Any deviation from the indicative haircuts / prices shall be as decided by the investment committee.

C. Inter-scheme Transfers

ISTs of all money market ,debt and sovereign securities (including T-Bills) (irrespective of maturity) shall be done at prices received from the valuation agencies as per the methodology prescribed by SEBI/AMFI.

(a) If prices from the valuation agencies are received within the pre agreed TAT (turnaround time), an average of the prices shall be used for IST pricing.

(b) If price from only 1 valuation agency is received within the agreed TAT then that price may be considered for IST pricing.

(c) If prices are not received form any of the valuation agencies then, AMC may determine the price for the IST in accordance with the Clause 3 (a) of Seventh Schedule of SEBI (Mutual Fund) Regulations,1996,i.e prevailing market price for quoted instruments on spot basis. In case an instrument is not traded on inter scheme trade date, then the previous day closing price will be considered as IST price

D. Self Trades

The use of own trade / self-trade prices for valuation of debt and money market securities and for inter-scheme transfers have been discontinued. The securities purchased which are already held by the mutual fund or securities sold partially shall be continued to be valued at their original price / yield.

Notes:

1. Sovereign Securities (including T Bills) irrespective of the residual maturity shall be valued at prices provided by Crisil and ICRA or any AMFI approved agency.
2. Investments in short term deposits with banks (pending deployment) and repurchase (repo) transactions (including tri-party repo i.e TREPS) with tenor of upto 30 days, shall be valued on cost plus accrual basis. For repo transactions (including tri-party repo i.e TREPS) with tenor more than 30 days the prices shall be obtained from the valuation agencies.
3. In order to have uniformity in valuation methodology, prices for all OTC (over the counter) derivatives and market-linked debentures shall be obtained from valuation agencies.
4. Investments in units of mutual fund schemes of the own fund shall be valued at the net asset value of the respective schemes as on the valuation date.
5. In case of exceptional circumstances, the securities may be valued as per the norms approved by the Valuation Committee. For eg. In case of purchase of new security, price of which is not provided by the agencies.

6. Common note(s) for valuation of Debt & Debt Related Instruments (as applicable). SEBI vide Circular No.SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019 & AMFI Best Practise Guidelines Circular No 135/BP/83/2019-20 dated November 18, 2019 has mandated a waterfall approach (Annexure I) and other methodologies (Annexure II) to be followed by the valuation agencies for valuation of certain debt and money market instruments.

Valuation of Equity and Equity Related Instruments

Listed

1. Traded

On a valuation date such securities will be valued at the last quoted closing price on the National Stock Exchange (NSE). NSE will be considered the principal stock exchange. In case a security is not traded on NSE, then the security will be valued at the last quoted closing price on Bombay Stock Exchange (BSE). If a security is not traded on NSE and BSE, it will be valued at the last quoted closing price on any other stock exchange.
If a security is not traded on any stock exchange on a particular valuation day, then at the last quoted closing price on NSE or BSE or any other stock exchange will be used, provided such closing price is not more than a period of thirty days prior to the valuation day.

2. Thinly traded (Trade value in a calendar month is less than Rs. 5 lakhs and total volume is less than 50,000 Shares) Non-traded (Price not available for a period upto preceeding thirty days)

Non-traded/ and/or thinly traded equity securities
Based on the latest available Balance Sheet, Net Worth shall be calculated as follows:

a. Net Worth per share = [Share Capital+ Reserves (excluding Revaluation Reserves) – Miscellaneous expenditure and Debit Balance in Profit and Loss Account] / Number of Paid up Shares.

b. Average Capitalization 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 Capitalization rate (P/E ratio). Earnings per share (EPS) of the latest audited annual accounts shall be considered for this purpose.

c. The value as per the net worth value per share and the capital earning value calculated as above shall be averaged and further discounted by 10 per cent for illiquidity so as to arrive at the fair value per share.

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

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

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

g. In case trading in an equity security is suspended up to thirty days, then the last traded price would be considered for valuation of that security. If an equity security is suspended for more than thirty days, then the Valuation Committee will decide the valuation norms to be followed and such norms would be documented and recorded.

3. **Unlisted**

   Investment in Unlisted Equity Shares

   A. Based on the latest available audited balance sheet, Net Worth shall be calculated as the lower of item (1) and (2) below:

1. Net Worth per share = [Share Capital + Free Reserves (excluding revaluation reserves) - Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses] / Number of Paid up Shares.
2. After taking into account the outstanding warrants and options, Net Worth per share shall again be calculated and shall be = [Share Capital + consideration on exercise of Option and/or Warrants received/receivable by the Company + Free Reserves (excluding Revaluation Reserves) - Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses] / Number of Paid up Shares plus Number of Shares that would be obtained on conversion and/or exercise of Outstanding Warrants and Options.
3. The lower of (1) and (2) above shall be used for calculation of Net Worth per share and for further calculation in (c) below.

B. Average capitalization 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 capitalization rate (P/E ratio). Earnings per share (EPS) of the latest audited annual accounts will be considered for this purpose.

C. The value as per the Net Worth value per share and the capital earning value calculated as above shall be averaged and further discounted by 15 per cent for illiquidity so as to arrive at the fair value per share.

The above valuation methodology shall be subject to the following conditions:

a) All calculation shall be based on Audited accounts.
b) If the latest Balance Sheet of the company is not available within nine months from the close of the year, unless the accounting year is changed, the shares of such companies shall be valued at zero.
c) If the Net Worth of the company is negative, the share would be marked down to zero.
d) In case the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalised earning.
e) In case an individual security accounts for more than 5 per cent of the total assets of the scheme, an independent valuer shall be appointed for the valuation of the said security. To determine if a security accounts for more than 5 per cent of the total assets of the scheme, it shall be valued in accordance with the procedure as mentioned above on the date of valuation. At the discretion of the AMCs and with the approval of the Trustees, unlisted equity shares may be valued at a price lower than the value derived using the aforesaid methodology.

In case the unlisted security is in the process of listing, and the price band for the same is being announced, the unlisted security shall be valued at the lower price of the price band from the date of announcement of the price band to the date of listing.

4. **Illiquid Securities (Thinly traded, non-traded, unlisted equity securities)**

If in excess of 15% of the total net assets of an open ended scheme and 20% in case of a close ended scheme - Nil Value

Valuation of American Depository Receipt (ADR), Global Depository Receipt (GDR) and all Overseas Securitie

1. **Traded**
    1. Traded foreign securities will be valued at latest available closing price of the stock exchange on which the security is traded
    2. In case the security is traded on more than one stock exchange, the security will be valued at the latest available closing price of the principal stock exchange. Principal stock exchange will be decided by the AMC at the time of purchase of securities and the reason for the selection will be recorded in writing. Any subsequent change in principal stock exchange selected for valuation will be necessarily backed by reasons for such change being recorded in writing by the AMC and approved by the Valuation Committee
    3. When on a particular valuation day, a security has not been traded on the principal stock exchange; the value at which it is traded on secondary stock exchange may be used.
    4. When a security is not traded on any stock exchange on a particular valuation day, the value at which it was traded on the principal stock exchange or any other stock exchange, as the case may be, on the earliest previous day may be used provided such date is not more than 30 days prior to valuation date.
    5. Due to differences in the time zones across different markets, the AMC would consider a cut off time of 5.00 PM (IST) for availability of the closing market price for the purpose of valuation i.e. if any market closes on or before 5.00 pm (IST) that day's last closing price will be considered for valuation else the previous day's closing price of that stock exchange will be considered. Accordingly, the valuation of the securities will be done based on T day prices or T-1 day prices, depending upon the closure of business hours of the stock exchange on which the particular securities are traded / listed

2. **Non-Traded Securities**

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

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

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

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

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

2. When on a particular valuation day, units of InvIT/ReITs has not been traded on the principal stock exchange; the value at which it is traded on secondary stock exchange may be used.
3. When units of InvIT/ReITs is not traded on any stock exchange on a particular valuation day, the value at which it was traded on the principal stock exchange or any other stock exchange, as the case may be, on the earliest previous day may be used provided such date is not more than 30 days prior to valuation date.
4. Where units of InvIT and ReIT are not traded on any stock exchange for continuous period of 30 days than the valuation for such units of InvIT and ReIT will be determined based on the price provided by an independent valuation agency(ies) or at latest NAV declared by Investment managers of the trust, as the case may be. The selection of the independent valuation agency(ies) will be approved by the Valuation Committee.
5. Where the valuation of units of InvIT and ReIT is not available from any independent valuation agency(ies), the valuation will be determined by the Fund Manager on the principles of fair valuation.

Valuation of Overseas Mutual Fund Units :-

1. Overseas Mutual Fund units listed and traded on exchange on valuation date would be valued at closing traded price as on the valuation date.
2. Overseas Mutual Fund units listed but not traded on valuation date would be valued at lower of their last available NAV as on the valuation date and previous day closing traded price. If Overseas Mutual Fund units are not traded for more than 1 day, would be valued at their last available NAV as on the valuation date.
3. Unlisted Overseas Mutual Fund units would be valued at their last available NAV as on the valuation date.
4. Due to differences in the time zones across different markets, the AMC would consider a cut off time of 5.00 PM (IST) for availability of the closing market price for the purpose of valuation for the schemes where the NAV is to be computed and disclosed on AMFI website on the same business day. Accordingly, the valuation of the units will be done based on T day prices or T-1 day prices, depending upon the closure of business hours of the stock exchange on which the particular units are traded / listed. In case of the schemes wherein the NAV is to be computed and disclosed on AMFI website on the next business day, units of overseas mutual fund would be valued at the last available closing price considering a cut off time of 5.00 AM (IST) T+1 i.e. if any market closes on or before 5.00 AM (IST) T+1 as the case may be, that day's last closing price will be considered for valuation else the previous day's closing price of that stock exchange will be considered.
5. All the corporate action for Overseas Mutual Fund units will be recorded on the same basis as valuation of Overseas Mutual Fund units by considering a cut off time of 5.00 PM (IST) / 5.00 AM (IST) T+1 as the case may be. The corporate action of the units will be recorded on T day or T+1 day, depending upon the closure of business hours of the stock exchange on which the particular units are traded / listed..

Conversion rate – Forex

The price in local currency would be obtained and the closing RBI reference rate would be used to calculate the closing price in INR. If the overseas securities / mutual fund units etc are listed in currency for which RBI reference rate is not available, the exchange rate available on Bloomberg/Reuter's would be considered. In case the direct exchange rates are not available on Bloomberg/Reuter's, then cross currency with USD would be considered and converted as per INR/USD RBI reference rate.

IPO Application

1. Application money for IPO

At cost upto the date previous to the date of listing. If the security is not listed within 30 days from allotment of the securities, the valuation committee shall decide to value such securities in line with the valuation of unlisted shares.

2. Additional Issues of Listed Securities (FPOs) / Qualified Institutional Placement.

Security value at market price

Demerger

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

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

Traded Shares at traded price, non-traded share market value to be derived based on market value of the original traded shares on trading day prior to the date of demerger minus market value of demerged traded shares on ex-date. In case value of the traded share of the demerged company is equal or in excess of the value of pre demerger share, then the non-traded share is to be valued at zero.The value so arrived will be periodically reviewed by the valuation committee till listing of such share.

iii None of the resultant companies' shares are traded on de-merger

Shares of demerged companies are to be valued equal to the pre demerger value (one trading day prior to the ex-date) . The market value of the shares to be apportioned in the ratio of cost of shares as may be obtained by prescribed demerger ratio. The value so arrived will be periodically reviewed by valuation committee till listing of such shares.

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

Merger

1) In case of merger, shares of the company are traded, the shares would be valued at respective traded prices.
2) In case of merger, shares of the company are not traded in exchange, the Shares of merged company are to be valued equal to the pre merger value (one trading day prior to the ex-date). The market value of the pre merger shares are to be added. The value so arrived will be periodically reviewed by valuation committee till listing of such shares.

Preference Shares

1) Traded Securities

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

2) **Non - Traded - Non Convertible Preference Share**

In case Non Convertible preference shares are non-traded then they will be valued as per debt valuation norms.

3) **Non - Traded - Convertible Preference Share**

In respect of convertible preference shares, the non-convertible and convertible components shall be valued separately. The non-convertible component should be valued on the same basis as would be applicable to a debt instrument. The convertible component should be valued on the same basis as would be applicable to an equity instrument. If, after conversion the resultant equity instrument would be traded pari passu with an existing instrument which is traded, the value of the latter instrument can be adopted after an appropriate discount of the non-tradability of the instrument during the period preceding the conversion while valuing such instruments, the fact whether the conversion is optional should also be factored in.

Convertible Debentures and Bonds

a) **Traded**

In case the Convertible Debentures and Bonds traded then they would be valued at traded price.

b) Non Traded

In respect of convertible debentures and bonds, the non-convertible and convertible components shall be valued separately. The non-convertible component should be valued on the same basis as would be applicable to a debt instrument. The convertible component should be valued on the same basis as would be applicable to an equity instrument. If, after conversion the resultant equity instrument would be traded pari passu with an existing instrument which is traded, the value of the latter instrument can be adopted after an appropriate discount of the non-tradability of the instrument during the period preceding the conversion while valuing such instruments, the fact whether the conversion is optional should also be factored in.

Rights

1. Where it is decided not to subscribe to the right but to renounce them and renunciations are being traded, the rights can be valued at the renunciation value.
2. The value of the “rights” shares should be calculated as:

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

   Vr = n/m * (Pex - Pof)

   Where,

   Vr = Value of rights

   n = No. of rights offered

   m = No. of original shares held

   Pex = Ex-rights price

   Pof = Rights Offer Price

3. Ex-right price of underline security will be considered separately for each valuation day.
4. In case the offer price is higher than the Ex-right price then the rights would be valued at Zero.
5. The above valuation price would be used till the date of allotment of shares. From the date of allotment, Valuation guidelines related to equity shares would be applicable for the allotted equity shares.

Warrants

A. **Traded**
   In case the warrants are traded then they would be valued at traded price.

B. **Non traded**
   In respect of warrants to subscribe for shares attached to instruments, where the exercise price is less than the value of the share, the warrants can be valued at the value of the share which would be obtained on exercise of the warrant as reduced by the amount which would be payable on exercise of the warrant. A discount similar to the discount to be determined in respect of convertible debentures must be deducted to account for the period which must elapse before the warrant can be exercised. However, where the Exercise price is greater than the value of the share, the warrants will be valued at zero.

Futures & Options (F&O)

1. On the valuation day, settlement price will be considered for valuation.
2. If the settlement price is not available, then closing price for the security will be considered for the valuation.
3. In case of Futures MTM is computed on daily basis.
4. MTM Gain/Loss = Current day settlement/Closing price- Previous day settlement/Closing price (If scrip is purchased first time then it is a Current day settlement / Closing price- Weighted Average Price (WAP)).
5. MTM is computed on scrip wise and series wise.

Investments in units / shares of mutual funds

Units / shares of mutual funds will be valued at the last published NAV

Interscheme Transfers for Equity Transaction

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

Segregate Portfolio valuation:

Notwithstanding the decision to segregate the debt and money market instrument in accordance with the SEBI Circular # SEBI/HO/IMD/DF2/CIR/P/2018/160 dated December 28, 2018, the valuation should consider the credit event and value the portfolio based on the principles of fair valuation. (i.e. realizable value of the assets) in terms of relevant provisions of SEBI (Mutual Funds) Regulation, 1996 and Circular(s) issued thereunder

Irrespective of the above policy, the valuation committee might adopt valuation principles to align with fair valuation norms.

Polling process for money market and debt securities

POLLING EXERCISE.

Polling process:

The valuation agency ICRA and CRISIL or any other agency appointed by SEBI, will conduct the polling process for the below mentioned securities:

1. Benchmark securities
2. Outlier trades (ISIN specific)
3. Securities/issuers under spread review.
4. Securities/issuers with rating changes and/or any corporate action which has an impact on valuations
5. Event/news based polling
6. Security/issuer for which formal feedback has been received through email by an AMC to review the valuations level.

Timelines

Category	**Polling request sent by valuation agency**	**Expected time by which AMC to revert**	**Medium of polling**	**Exceptions if any**
Benchmark securities, Events, corporate actions, any material news, rating changes, spread review cases etc available in morning	4:30 PM	5:15 PM	Excel sent through email	In case designated person is unable to send response through email, he can provide polls on call / Reuters Messenger which are recorded by valuation agency.
Initial set of outliers, rating changes, or polling triggered by any specific event	4:30 PM	5:15 PM	Excel sent through email	
Final list of polling for outliers or rating changes, or polling triggered by any specific event	5:45 PM	6:30 PM	Excel sent through email	
Polling in any other situation	Anytime	Immediate (Cut Off time 5:15 PM)	Reuters Messenger	

All polling should preferably be over email. In case for any reason, the polling is done by way of a telephonic call, then such a call should be followed by an email.

Roles and responsibilities of persons participating in the polling:

Any one member of Debt Fund management team, including Fund Manager(s), dealer(s), Head of Fixed Income/ CIO, will be participating in the polling.

AMC debt team will send the polls from the email id provided to rating agency (with a cc marked to Risk officer) for the same and accordingly the valuation/polling agency will communicate on the same email ID to maintain continuity of records

Policies and procedures for arriving at the poll submission

1. Poll for the securities rated AA+ and above will be provided on the basis of traded prices/ yields or market quotes/ credit spreads for securities/ similar quoted securities based on rating and tenor.
2. Poll for the securities rated AA and below will be provided based on the last valuation provided by polling agency and market movement for the polling day
3. The AMC may not provide poll for securities having structured obligations or other covenants attached.
4. The AMC may not provide poll for securities which have been downgraded below A rating
5. The AMC will not provide poll for securities issued by associate companies.

Risk and Compliance Management

1. The Compliance officer/ team may restrict the fund management team/polling participant from providing poll for the securities which are held in personal capacity by the key managerial person of AMC and/or associate companies.
2. Risk officer will be responsible for maintenance of records for such period as stipulated by SEBI from time to time.
3. Periodic reporting to AMC and Trustee Board, of data provided to polling agencies
4. Periodic reporting to AMC and Trustee Board, of data which has not been provided to polling agencies and rationale for the same

Role of the Board of AMC and Trustees

The Boards of AMC and Trustee, based on the data provided by the Risk and Compliance team may take note of the same and provide guidance, in case they have any comments on the polling process.

Annexure I

Waterfall Mechanism and other valuation methodologies for valuation of money market, debt and government securities

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

The extract from AMFI best practices circular (135/BP/83/2019-20) dated November 18, 2019 pertaining to the waterfall mechanism is as under:

Part A: Valuation of Money Market and Debt Securities other than Government Securities ("G-Secs"):

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

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

Note 1

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

Note 2

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

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

Note 3

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

Note 4

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

The following events would be considered exceptional events:

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

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

2. Definition of tenure buckets for Similar Maturity.

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

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

In addition to the above:

a. In case of market events, or to account for specific market nuances, valuation agencies may be permitted to vary the bucket in which the trade is matched or to split buckets to finer time periods as necessary. Such changes shall be auditable. Some examples of market events / nuances include cases where traded yields for securities with residual tenure of less than 90 days and more than 90 days are markedly different even though both may fall within the same maturity bucket, similarly for less than 30 days and more than 30 days or cases where yields for the last week v/s second last week of certain months such as calendar quarter ends can differ.

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

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

3. Process for determination of similar issuer.

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

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

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

4. Recognition of trades and outlier criteria

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

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

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

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

ii. Outlier criteria

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

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 below 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

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

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

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

<u>Liquidity classification criteria - Liquid, semi-liquid and Illiquid definition</u>

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.

<u>Trading Volume (Traded days) based criteria</u>:

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

<u>Spread based criteria:</u>

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 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.

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

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

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

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

Note:

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

Annexure II

Valuation methodologies for securities having Put/Call Options / Treatment of Upfront Fees on Trades. Impact of any Changes to terms of an investment – SEBI circular no. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019 & AMFI best practices circular (135/BP/83/2019-20) dated November 18, 2019

A) Valuation of securities with Put/Call Options

The option embedded securities would be valued as follows:

i) Securities with Call Option: The securities with call option shall be values at the lower of the value as obtained by valuing the security to final maturity and valuing the security to call option. In case there are multiple call options, the lowest value obtained by valuing to the various call dates and valuing to the maturity date is to be taken as the value of the instrument.

ii) Securities with Put Option: The securities with put option shall be values at the higher of the value as obtained by valuing the security to final maturity and valuing the security to put option. In case there are multiple put options, the highest value obtained by valuing to the various put dates and valuing to the maturity date is to be taken as the value of the instrument.

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

a) 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.
b) 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.
c) In case no Put Trigger Date or Call Trigger Date ('Trigger Date") is available, then the 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.

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

v) As regards the valuation of bonds with call and/or put options, it is clarified that the bonds shall be valued in line with the SEBI circular No. MRD/CIR/8/92/2000 dated September 18, 2000 irrespective of the nature of issuer. Further, the maturity of all perpetual bonds shall be treated as follows from the date of issuance of the bond for the purpose of valuation.

Time Period	Deemed Residual Maturity of Basel III AT-1 bonds	Deemed Residual Maturity of Basel III Tier 2 Bonds

	(Years)	(Years)
Till March 31, 2022	10	10 years or Contractual Maturity whichever is earlier
April 01, 2022 — September 30, 2022	20	Contractual Maturity
October 01, 2022 — March 31, 2023	30	Contractual Maturity
April 01, 2023 onwards	100 *	Contractual Maturity

*100 years from the date of issuance of the bond.

B) Treatment of Upfront Fees on Trades

i) Upfront fees on all trades (including primary market trades), by whatever name and manner called, would be considered by the valuation agencies for the purpose of valuation of security.
ii) Details of such upfront fees should be shared by the AMC on the trade date to the valuation agencies as part of the trade reporting to enable them to arrive at the fair valuation for that date.
iii) For the purpose of accounting, such upfront fees should be reduced from the cost of the investment in the scheme that made the investment.
iv) In case upfront fees are received across multiple schemes, then such upfront fees should be shared on a pro-rata basis across such schemes.

C) Impact of any Changes to terms of an investment:

While making any change to terms of an investment, AMC shall adhere to the following conditions:

(a) Any changes to the terms of investment, which may have an impact on valuation, shall be reported to the valuation agencies immediately.
(b) Any extension in the maturity of a money market or debt security shall result in the security being treated as “Default”, for the purpose of valuation.
(c) If the maturity date of a money market or debt security is shortened and then subsequently extended, the security shall be treated as “Default” for the purpose of valuation.
(d) Any put option inserted subsequent to the issuance of the security shall not be considered for the purpose of valuation and original terms of the issue will be considered for valuation.

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