PGIM India Mutual Fund

Valuation Policy

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Introduction

The value of investments in securities by a mutual fund scheme determines the Net Asset Value (NAV) of the scheme. Valuing a security entails the process of determining the price that an investment can reasonably be expect to fetch in an open market. However, such a price may or may not be readily available due to various constraints including the fact that the investment may not be traded in the market during a particular period or an investment is not listed and hence an acceptable and transparent market price is not readily available. As the determination of correct NAV is fundamental to ensuring fair pricing of transactions and other significant processes in a scheme, it is critical that, the process of determining the value of investments is efficient and produces accurate and reliable results.

The fundamental guiding principle for fair valuation is to minimize the difference in valuation of securities relative to its expected realisable value upon sale in the market. To this end, the Valuation Policy and processes followed at PGIM India are designed with the objective of ensuring fair valuation of securities at all points in time through a consistently followed valuation approach / methodology. Such an approach would foster fair treatment across all classes of investors (those investing, redeeming and staying in the fund).

While the policy strongly supports a consistent approach and methodology of valuation, where a departure from the same becomes necessary / expedient to ensure fair valuation, the policy allows flexibility for the same subject to necessary approvals within the regulatory framework.

Purpose

This document describes the Valuation Policy (‘the Policy’) of PGIM India Mutual Fund (‘PGIMMF’) and the process of valuation of investments made by PGIMMF in line with the Regulations. Annexure 1 & 2 to this document prescribes specific methodologies to be adopted for valuation of various types of securities held across schemes of PGIMMF.

This document aims to ensure that :

- PGIMMF, at all points of time, values its investments across all its schemes, in accordance with the principles of fair valuation so as to ensure fair treatment to all investors including existing investors as well as investors seeking to purchase or redeem units ;

- The process of valuation of securities is fair, transparent and consistent ;
- Valuation of investments reasonably reflect the realizable value of securities / assets at all points of time
- Any departure from the defined process / methodology adopted for valuation of securities is pre-approved and appropriately documented with necessary justification. Besides, necessary disclosures, as required under applicable regulations are made for such departure ;
- The methodologies adopted are reviewed at appropriate intervals and revised as necessary to meet regulatory and / or commercial requirements with due consideration, at all times, to the best interest of unit holders in the schemes.

Regulatory Requirements

The Securities and Exchange Board of India (SEBI) has prescribed rules for valuation of investments in the Eighth Schedule to the SEBI (Mutual Funds) Regulations, 1996 ('the Regulations'). These regulations mandate valuation of mutual fund investments in accordance with principles of fair valuation, 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.

Besides, circulars issued by SEBI from time to time complement the regulatory prescriptions in the Eighth Schedule. Besides, the valuation policy takes into cognizance any regulatory prescriptions from other regulators like the Reserve Bank of India, where applicable and various best practice guidelines issued by the Association of Mutual Funds in India (AMFI) from time to time with a view to ensuring consistency in approach and methodology followed in valuing different types of securities.

Valuation Committee

SEBI Circular No. MFD/CIR No.010/024/2000 dated January 17, 2000 stipulates that an asset management company is required to constitute an in-house Valuation Committee comprising of senior executives including personnel from Accounts, Operations, Fund Management and Compliance departments for reviewing the system and practices of valuation of securities.

Accordingly, the Board of Directors of PGIM India Asset Management Private Limited has constituted a Valuation Committee in order to govern and oversee valuation of various portfolios.

Constitution of the Committee

The Valuation Committee of the Company will comprise of the following members:

a. Chief Executive Officer (CEO)
b. Chief Operating Officer (COO)
c. Chief Investment Officer – (CIO)
d. Head- Equities
e. Head – Fixed Income
f. Chief Compliance Officer (CCO)
g. Head – Mutual Fund Operations
h. Head – Risk

The Committee will be chaired by the CEO. The CEO may, where so necessary, invite other officials of the Company to attend meetings of the Committee. In the absence of the CEO, the Committee will be chaired by the COO.

Terms of Reference

The valuation committee shall have the following terms of reference :

a) Drafting of the valuation policy for the Mutual Fund
b) Periodic review of the valuation policy to ensure its updatedness
c) Adoption of the right valuation methodology for valuation of securities and ensuring consistency in the use of the methodology unless a deviation is necessary or expedient to achieve the end purpose

of arriving at the fair realisable value of securities.

d) Approve valuation methodology for new securities and new types of securities pending receipt of valuation from valuation agencies.

e) Approve valuation methodology during exceptional events where valuation according to the prescribed methodology does not yield results that represent the fair, realisable value of the security in the market.

f) Lay down procedures to detect and prevent incorrect valuation of securities.

g) Review changes in regulations / practices with respect to valuation of securities and accordingly amend the valuation policy to be in compliance with these requirements.

h) Removal of difficulties, if any, in a consistent and harmonious interpretation of the policy with regulatory requirements. Provided that, if any terms of this policy are inconsistent with regulatory prescriptions on valuation, notwithstanding anything contained in the policy, the valuation shall be carried out in accordance with what is prescribed in the regulations.

i) Identifying and arresting conflict of interest, if any, in the valuation process.

j) Reporting of any instances of deviations from the prescribed valuations or / incorrect valuations to the Board.

Notice and Format of Meetings

Meetings of the Valuation Committee may be called by the CEO, COO, CIO or the Compliance Officer to discuss any agenda items that require a decision from the valuation committee.

Any decision to deviate from a consistently followed valuation methodology would predominantly be triggered based on alerts from the market place or news that impact specific issuers / securities. These decisions have a bearing on the daily NAV of schemes. In view of this, the committee acknowledges that meetings of the committee may be called on short notice to transact any matters that require an urgent guidance / decision from the committee.

The committee meetings may be conducted as in-person meetings in the Corporate Office of PGIM India AMC or any other place as may be determined by the Chairman of the Committee. The committee would facilitate participation by members and other invitees to the meeting over audio / video conferencing facility.

Frequency of Meetings

The Valuation Committee shall meet as and when required. Provided that, at least one meeting of the Committee will be held every year.

Quorum for Meetings

The quorum for meetings of the Valuation Committee will be three members subject to the condition that :

- either the CEO or CCO ; and
- the CIO

are mandatorily present to constitute a valid quorum for the meeting.

The CEO may, where so required , invite specific members from the investment teams to participate in the meeting and seek their inputs to facilitate any urgent, time critical decisions. Any valuation committee decisions taken in a dully constituted meeting where the CIO/ Head-Equities/ Head- Fixed Income is not present would be relayed to them for their review, and inputs. Amendments, if any to the decisions based on the review of the CIO would be carried out on a prospective basis.

Policy Review

The Valuation Committee shall review the policy at least annually to ensure appropriateness and accuracy in the methodology followed while valuing securities.

The committee may review and revise the policy more frequently where so warranted on account of regulatory changes or in circumstances wherein it is determined that the policy needs to be amended to reflect a fair valuation methodology. The Compliance department at PGIM India AMC shall update the Committee of all regulatory changes related to valuation of securities as also any best practice circulars, guidance framework, etc. adopted by the Industry

The updated policy would then be placed before the Board of Directors of the AMC and the Trustee Company for its review and approval.

Exceptional Events

While the endeavour at PGIM India AMC is to adopt a fair, reliable and consistent valuation methodology that reflects the realisable value of securities held across the portfolios of its various schemes, in exceptional circumstances, there may be a need for a departure from the consistently followed approach and methodology to ensure fair valuation of securities. While it is not practically possible to list all kinds of exceptional events, the following types of events have the potential of being classified as exceptional events

- Major policy announcements by the Central Bank, the government or the regulator
- Natural disasters or public disturbances that force the markets to close unexpectedly
- Significant volatility in the capital market
- Liquidity crunch in the market
- Events related to a company or a sector falling below the investment grade
- Any other event which the valuation committee believes is exceptional

The valuation committee shall be responsible for identifying such exceptional events and recommending appropriate alternate valuation methodologies in line with the principles of fair valuation.

In an exceptional event, the Valuation Committee may seek the guidance of the AMC Board in deciding the appropriate methodology for valuation of affected securities.

Deviations from the valuation policy and principles, if any, will be communicated to the unit holders by way of suitable disclosures on the fund's website.

Deviations

Any deviation to the Valuation Policy in valuation of securities shall require the prior approval of the Valuation Committee. Any proposals seeking a deviation in the methodology adopted for valuation of securities shall be backed by a proper justification for seeking the deviation.

All such deviations along with details such as information about the security (ISIN, issuer name, rating etc) price at which the security was valued vis-à-vis the price as per the valuation agencies and the impact of such deviation on scheme NAV (in amount and percentage terms) shall be reported to the Board of AMC and Trustees.

Conflict of Interest

The Valuation Committee shall be responsible for identifying and addressing any conflict of interest and recommend changes/amendments to the policy or processes followed. Any such proposed changes shall be placed before the Board of AMC and Trustees for ratification.

Maintenance of Records

All relevant documents forming the basis of valuation including approval notes and supporting documents shall be maintained and preserved in accordance with regulatorily prescribed record retention guidelines.

Disclosures & Distribution of the Policy

The policy document shall be included in the SID/SAI of the fund and would also be made available on the website of the fund.

Any deviations in valuation of securities from the prescribed valuation policy would be communicated to unit holders by way of suitable disclosures published under a separate head on the fund’s website.

An approved copy of this policy and all subsequent updates thereto shall be provided to the Fund Accountant to ensure that the valuation of securities is carried out by them in line with the methodology prescribed in the valuation policy.

Annexure 1 - Valuation of Equity and Equity related Securities

Category	Valuation Methodology
Traded	All actively traded equity securities will be valued at its closing price on the principal stock exchange (NSE) on the valuation day (i.e. T day). PGIM India AMC has chosen the National Stock Exchange of India Limited (NSE) as the principal stock exchange as its trading volumes and market turnover for the relevant securities is higher than Bombay Stock Exchange (BSE). If a security is not listed on the principal stock exchange but listed on the secondary stock exchange, the closing price of the security on the secondary stock exchange on the valuation day will be considered for the purpose of valuation. Likewise, for an equity security listed on both the Exchanges, if the price is not available in the principal stock exchange on a particular valuation day, then its closing price in the secondary stock exchange (BSE) for the day will be considered for valuation. If a security is not traded on the principal or secondary stock exchange on a particular valuation day, the value at which it was traded on the principal stock exchange or secondary 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 the valuation date.
Non Traded	A security not traded on either of the stock exchanges for a period of thirty days prior to the valuation date would be classified as a non-traded security. Such a security shall be valued in good faith based on the principles laid down below 1) Based on the latest available Balance Sheet, net worth per share would be calculated as [Share capital + Reserves (excl revaluation reserves) – Misc. Exp and Debit Balance in P&L] divided by number of paid up shares 2) Then, value per share is calculated by the capitalized earnings method i.e. EPS (earnings per share) multiplied by the price earnings multiple (P/E). Here average P/E multiple for the industry is used based on available NSE or BSE data. The identified P/E multiple is discounted by 75% i.e., only 25% of the industry average P/E shall be taken as the P/E for the security being valued. Earnings per share reflecting in the latest audited annual accounts will be considered for this purpose. If the EPS is negative, EPS value will be taken as zero.

	3) The value per share based on net worth method and based on capitalized earnings method is averaged and further discounted by 10% for illiquidity to arrive at the fair value per share. 4) Where latest balance sheet is not available within nine months from close of the year, unless accounting year is changed, the value of shares is taken as zero. 5) If the individual security accounts for more than 5% of the net assets of the scheme, an independent valuer shall be appointed for the valuation of such security. To determine if the security accounts for more than 5 % of the total assets of a scheme, it should be valued in accordance with the above procedure and the proportion which it bears to the net assets of the scheme which it belongs would be compared on the date of valuation.
Thinly Traded	An equity / equity related security shall be considered as thinly traded if and only if it fulfils both the below criterion over a period of a calendar month : a. Value of trades for the calendar month is less than Rs. 5 lacs ; and

	b. Volume of securities traded across all recognized stock exchanges in India is less than 50,000 shares. The methodology to be followed for valuation of thinly traded securities shall be as below : 1) Where a Stock Exchange identifies thinly traded securities by applying the above parameters for the preceding calendar month and publishes or provides the required information along with the daily quotations, the same shall be used for the purpose of valuation. 2) Where no such information and quotations are available from the stock exchange(s), or where the available published information does not reflect the fair realizable value of the security, such securities shall be valued in good faith based on the principles described above for non-traded securities.
Unlisted	Unlisted Equity shares shall be valued in good faith based on the principles laid down below :- 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. 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. Then, value per share is calculated by the capitalized earnings method i.e. EPS (earnings per share) multiplied by the price earnings (P/E) multiple. Here

	average P/E multiple for the industry is used based on available NSE or BSE data. The identified P/E multiple is discounted by 75% i.e., only 25% of the industry average P/E shall be taken as the P/E ratio for the security being valued. Earnings per share (EPS) reflecting in the latest audited annual accounts will be considered for this purpose. If the EPS is negative, EPS value will be taken as zero. c. The Net Worth per share derived at (a) above and the value per share calculated using the capitalised earnings method in (b) 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 calculations shall be based on audited financial statements. 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 f. The average capitalisation rate (P/E ratio) data for the industry would be sourced from either NSE or BSE and consistently applied. E.g. if NSE data is taken, the same shall be consistently applied and if there is a need to change the source data to BSE, the justification for the same shall be recorded in writing.
Initial Public Offer (IPO)	IPO investments will be accounted as share application money until confirmation on allotment is received. Post allotment till initial listing, the shares will be valued at cost. Post listing, it will be valued as per the norms applicable for traded equity shares.

Follow on Public Offer (FPO)	Applications made for subscription to FPOs will be accounted as share application money until confirmation on allotment is received. Allotments received in FPOs will be valued akin to the traded security upon receipt of confirmation of allotment.
Merger/Amalgamation	Valuation of the resulting company would be determined by valuation of merging/amalgamating company prior to the ex-date of merger/amalgamation. In case of merging/amalgamating companies being listed, valuation of resulting companies would be summation of valuation of entities immediately prior to merger date. Further if a listed company merges into an unlisted surviving company, then the surviving company should be valued at the traded value of merging company immediately before merger. Example :- • If company A and company B merge to form a new company C then company C would be valued at a price equal to the price of A + B • If company A which is a listed company merges into company B which is an unlisted company the holdings in the unlisted company A resulting from the

	merger would be valued at the traded price of A immediately before the merger.
Demerger	In case of demerger, there are three possibilities namely : - Both companies are listed - One of the companies is listed - Both companies are not listed a) If both the companies are listed, then the traded price of the individual securities will be considered for valuation. b) If one of the demerged companies is listed : i. for the company whose security is listed, the valuation would be carried out by following the methodology defined above for traded securities ; and ii. for the company whose security is not listed, the valuation price will be derived as follows : [Last quoted closing price of the original traded share one trading day prior to the ex date of the demerger] **minus** [Last quoted closing price of the listed company after the demerger]. In cases where the last quoted closing price of the

	listed company after demerger is equal to or in excess of the pre merger price, then the valuation price for the non listed company will be taken as Zero. c) In cases where there are multiple demerged companies and such companies are not listed, the valuation methodology will be finalised in consultation with the valuation committee. Likewise, other complex reconstruction and arrangement transactions where the methodology for valuation is not defined in this policy document will be referred to the valuation committee for guidance on fair valuation and the justification for the recommended methodology would be recorded in writing. d) If both the companies post demerger are not listed, the pre-merger price (i.e the closing price of the share of the company one trading day prior to the ex date for the demerger) will be bifurcated between the two resulting companies in the demerger ratio. e) In case of securities received under de-merger and not listed for more than 90 days from the date of receipt of the security, then the valuation of such securities would be referred to valuation committee. Valuation methodology will be finalized in consultation with the valuation committee for

	guidance and fair valuation and the justification for the recommended methodology would be recorded in writing
Valuation of Rights Entitlement and Renunciations	The Rights entitlement will be valued as on ex-date. The rights entitlement will be booked at the issue price and valued at Ex–Rights price minus Rights Offer price till the rights shares are traded. In case the offer price is higher than the Ex-Rights price, rights share will be valued at Zero. In case of rights on non traded shares, the value of rights will be Zero. In case the quantity applied for, is less than the rights entitlement, then shares applied will be valued at the ex rights price till the rights shares are traded.. In case the quantity applied for is more than the rights entitlement then the additional quantity will be shown as application money. Valuation of additional quantity will commence on confirmation of actual allotment. **<u>Renunciations</u>** : Where rights shares are renounced and if the rights share renunciation is traded in the stock exchanges, then the traded price for the renunciations shall be used for valuation

Preference Shares	For all categories of preference shares that are listed and traded in the Stock Exchanges, the valuation would be done at the closing price of the security in the principal stock exchange or the secondary stock exchange and the valuation methodology adopted will be similar to valuation of traded equity securities mentioned above. Where preference shares are not traded or listed, the same shall be fair valued by the valuation committee after considering price / terms of underlying security. Valuation committee shall, after taking into account available data points, determine the valuation of such security providing for appropriate illiquidity discount to reflect the fair realisable value of the security.
Warrants	Traded warrants will be valued at the traded price. Non traded warrants will be valued as under :- • If the exercise price is less than the underlying share price then the warrants would be valued at the value of the underlying share price less the exercise price with illiquidity discount as may be decided by the valuation committee. • If the exercise price is more than the underlying share price then it would be valued at Zero.

Futures and Options	Futures and Options that are traded in the principal stock exchange (NSE) shall be valued as per the settlement price of the same on NSE. Where a particular security under the futures and options category is not listed and /or traded in the principal stock exchange (NSE) but is traded in the secondary stock exchange (BSE), the same shall be valued as per the settlement price of the secondary stock exchange (BSE). **Non Traded futures and option** This shall be valued based on settlement price / any other equivalent price provided by the respective stock exchange. In the event such reference price is not available for a particular security, the same shall be fair valued by the valuation committee after considering prices / terms of underlying security. Valuation committee shall, after taking into account available data points, determine the valuation of such security providing for appropriate illiquidity discount to reflect the fair realisable value of the security.
Convertible Debentures	In the case of convertible debentures, the non-convertible and convertible components shall be valued separately. The non-convertible component (Debt) shall be valued on the same basis and methodology as would be applicable for debt instruments. The convertible component (Equity) 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 at the same level with an existing equity instrument which is traded, the value of the latter instrument can be adopted after an appropriate discount for non-tradability, time value, volatility etc of the equity instrument during the period preceding the conversion. While valuing such instrument the fact whether the conversion is optional shall also be taking into consideration.
American Depository Receipts and Global Depository Receipts (ADR/GDR)	ADRs and GDRs that are listed and traded on a stock exchange will be valued based on last traded price on the exchange where the issue is listed and traded. However in case an ADR or GDR 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 the same. In such cases, the AMC shall record the justification for selecting a particular stock exchange whose price is used for valuation and use the same consistently for the purpose of valuation. If, at a later date, the AMC proposes to apply the price available on a different stock exchange for the purpose of valuation of the ADR / GDR, the same would need to be approved by the valuation committee with necessary justification for the change and such change shall be carried out prospectively after the approval of the valuation committee.

	Further in case of extreme volatility in the international markets, the securities listed in any market impacted by the volatility may be valued on a fair value basis based on guidance received from the Valuation Committee. Due to difference in time zones of different markets, in case the closing prices of securities are not available within a given time frame to enable the AMC to upload the NAVs for a valuation day, the AMC may use the last available traded price for the purpose of valuation. The use of the closing price/last traded price for the purpose of valuation will also be based on the practice followed in a particular market. Non traded ADR/GDRs shall be fair valued by the valuation committee after considering prices / terms of underlying security. Valuation committee shall, after taking into account available data points, determine the valuation of such security providing for appropriate illiquidity discount to reflect the fair realisable value of the security.
Foreign Securities	Foreign securities are securities issued outside India and listed on stock exchanges outside India. These securities 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. In such cases, the AMC shall record the justification for selecting a particular stock exchange whose price is used for valuation. If, at a later date, the AMC proposes to apply the price available on a different stock exchange for the purpose of valuation of the security, the same would need to be approved by the Valuation Committee with necessary justification for the change and such change shall be carried out prospectively after the approval of the valuation committee. Further in case of extreme volatility in the international markets, the securities listed in any market impacted by the volatility may be valued on a fair value basis based on guidance received from the Valuation Committee. Due to difference in time zones of different markets, in case the closing prices of securities are not available within a given time frame to enable the AMC to upload the NAVs for a valuation day, the AMC may use the last available traded price for the purpose of valuation. The use of the closing price/last traded price for the purpose of valuation will also be based on the practice followed in a particular market. Non traded foreign securities shall be fair valued by the valuation committee after considering prices / terms of

	underlying security. Valuation committee shall, after taking into account available data points, determine the valuation of such security providing for appropriate illiquidity discount to reflect the fair realisable value of the security.

Annexure 2 - Valuation of Debt and Money Market instruments

Category	Valuation Methodology
Debt and Money Market instruments & BRDS across all Maturity	These instruments will be valued at the average of the security level prices as provided by the valuation agencies nominated by AMFI (currently CRISIL & IMACS) . 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. If the security level prices are not provided on subsequent days and the purchase yield is considered inappropriate, then the Valuation Committee shall adopt alternate procedures / methodologies in accordance with the fair valuation principles to arrive at the fair valuation of the security.
Sovereign Securities which includes Government Securities, (G Secs/ SDLs), Treasury Bills, Cash Management Bills and any other Sovereign security	Sovereign securities shall be valued on the basis of the security level prices as provided by the valuation agencies

OTC Derivatives and Market Linked Debentures	All OTC Derivatives (including Interest Rate Swaps) and Market Linked Debentures shall be valued at the average of security level prices obtained from the valuation agencies.
Interest Rate Futures	Interest Rate Futures shall be valued at the daily settlement price on NSE or any other recognized stock exchange.
Valuation Methodology for money market and debt securities which are rated below investment grade and Default	A money market or debt security shall be classified as "below investment grade" if the long term rating of the security issued by a SEBI registered Credit Rating Agency (CRA) is below BBB- or if the short term rating of the security is below A3. A Money Market or debt security shall be classified as "default" as per the below scenarios i. If the interest and / or principal amount has not been received, on the day such amount was due or when such security has been downgraded to "Default" grade by a Credit Rating Agency (CRA). ii. 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. iii. 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

	Money market and debt securities which are rated below investment grade shall be valued at the price provided by the valuation agencies. Till such time the valuation agencies compute the valuation of money market and debt securities classified as below investment grade, such securities shall be valued on the basis of indicative haircuts prescribed by AMFI (refer Annexure 5). These indicative haircuts shall be applied on the date of credit event i.e. migration of the security to sub-investment grade or default on the principal and accrued interest if any and shall continue till the valuation agencies compute the valuation price of such securities. Further, these haircuts shall be updated and refined, as and when there is availability of material information which impacts the haircuts. In case of securities classified as below investment grade but not default, interest will continue to be accrued with the same haircut as applied to the principal. In case of securities classified as default, no further interest will be accrued. In case of trades during the interim period between date of credit event and receipt of valuation price from valuation agencies, such traded price for valuation will be considered if it is lower than the price post standard haircut. The said traded price shall be considered for valuation till the valuation price is determined by the valuation agencies.

	In case of trades after the valuation price is computed by the valuation agencies as referred above and where the traded price is lower than such computed price, such traded price shall be considered for the purpose of valuation and the valuation price may be revised accordingly. The trades referred above shall be of a minimum size as determined by valuation agencies. AMC may deviate from the indicative haircuts and/or the valuation price for money market and debt securities rated below investment grade provided by the valuation agencies subject to the following and post approval of the valuation committee: • The detailed rationale for deviation from the price post haircuts or the price provided by the valuation agencies shall be recorded by AMC ; • The rationale for deviation along-with details such as information about the security (ISIN, issuer name, rating etc.), price at which the security was valued vis-a-vis the price post haircuts or the average of the price provided by the valuation agencies (as applicable) and the impact of such deviation on scheme NAV (in amount and percentage terms) will be reported to the Board of AMC and Trustees. **Treatment of any future recovery** Any recovery shall first be adjusted against the outstanding interest recognized in the NAV and any balance shall be adjusted against the value of principal recognized in the NAV.

	Also any recovery in excess of the carried value (i.e. the value recognized in NAV) should then be applied first towards amount of interest written off and then towards amount of principal written off.
Repo / TREPS Instruments (Tenor upto 30 days)	Valuation for these investments would be done on cost plus accrual basis
Reverse repo (Tenor upto 30 days)	Valuation for these investments will be done on the basis of cost adjusted by the accrued interest based on the cost and sell back price.
Repo/TREPS (Tenor greater than 30 days)	Repo / TREPS at the average of the security level prices as provided by the valuation agencies nominated by AMFI (currently CRISIL & IMACS) from the next day of the purchase date. On the purchase date, the Repo/TREPS will be valued at purchase yield. In the case of multiple Repo/TREPS trades, the same will be valued at weighted average yield.
Private Placements (primary market)	Privately placed instruments upto the date of allotment would be valued at cost. From the date of allotment, the security will be valued as per the above stated valuation methodology for debt and money market instruments.
Short Term Deposits	Short Term Deposits maturing within 30 days from the date of valuation shall be valued on cost plus accrual basis.

Fixed Deposits – Step Up (tenor upto 30 days)	FDs would be valued at cost plus interest accrued. • For each period, the accrual would be done at the realizable rate. The rate differential between two periods, would be accrued on the day the rate changes. • Realizable rate would be the rate applicable for that period less any prepayment penalty
Bills of Exchange / Promissory Notes	These instruments would be valued at cost plus interest accrued.
Units of Infrastructure Investment Trust (InvITs) / Real Estate Investment Trust" (REITs)	These instruments are valued as below If the units of InvITs/ REITs are listed then they will be valued at the closing price at the principal stock exchange. If units are not traded on principal stock exchange on a particular valuation day, the closing price on any other stock exchange where units are traded will be used . If units are not traded on any stock exchange on a particular valuation day, then closing price at which it traded on the principal stock exchange or any other stock exchange, as the case may be, on the earliest previous day will be used provided such date is not more than 30 days prior to valuation date. If the units of InvITs /REITs are Unlisted / Non-Traded

	Where units of InvIT and REIT are not traded on any stock exchange for a continuous period of 30 days then the valuation for such units of InvIT and REIT will be determined based on the procedure determined by Valuation Committee.
Valuation of securities with Put/Call Options	**a) <u>Securities with Put and Call option on same day and at same price</u>** Securities with (a) **<u>both</u>** Put and Call option on the same day ; **<u>and</u>** (b) the same put and call option price would be deemed to mature on the Put/Call day and would be valued accordingly. **b) <u>All other cases</u>** The cash flow of each put and call option shall be evaluated and the security shall be valued on the following basis : 1. 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. 2. 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 3. In case no Put Trigger Date or Call Trigger Date ('Trigger Date") is available, then valuation would be done to maturity price.

	4. In case one Trigger Date is available, then valuation would be done as to the said Trigger Date. 5. In case both Trigger Dates are available, then valuation would be done to the earliest date. 6. 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.
Valuation of Perpetual Bonds (AT-1 Bonds and Tier-2 Bonds)	AT-1 Bonds and Tier-2 bonds will be valued **as per AMFI best practices guidelines circular no 91/2020-21 dated March 24, 2021** or any subsequent amendments there to. The AMFI guideline is attached as **Annexure 6.**
Valuation of Floating Rate bonds (FRBs)	Floating rate bonds (FRBs) will be valued as per **AMFI Best Practices Guidelines Circular No.95 / 2021-22** dated 23rd February 2022 attached as **Annexure 4.**
Valuation guidelines for inter scheme transfer of fixed income instruments	Inter scheme of money market or debt security (irrespective of maturity)will be done at a price which is the average of the prices provided by the valuation agencies within the pre-agreed TAT after communication of inter scheme to the valuation agencies. If the price is received from only 1 valuation agency within the pre-agreed TAT after communication of inter scheme to the valuation agencies, that price will be considered for the inter scheme trade.

	If prices are not received from any of the Valuation Agencies within the agreed TAT, the IST would be at the price derived from the weighted average yield / price of traded securities at the time of the IST as per process mentioned in **Annexure 3**
Units of Mutual Fund	Investments in units of Mutual Fund schemes shall be valued at the last declared / latest Net Asset Value made available per Unit by the respective mutual fund scheme, as at the close of the relevant valuation day. Where the investment is in an overseas fund, the NAV per unit of the underlying fund in the foreign currency would be converted into INR using the FBIL Reference Rate from Bloomberg.
Upfront Fee on Trades	Details of upfront fees to be shared with the valuation agencies on the trade date as part of the trade reporting. Upfront fees on all trades including primary market trades will be considered by the valuation agencies for valuing the security Upfront fees will be reduced from the cost of the investment in the scheme that made the investment In case upfront fees is received across multiple schemes, then such upfront fees should be shared on a pro rate basis across such schemes

Annexure 3 – Valuation of Inter scheme transfers in case the prices are not received from Valuation agencies within agreed TAT

For instruments maturing above 1 year:

The weighted average yield / price of traded securities (excluding inter scheme transfers of others and own trades of PGIM India Mutual Fund) will be considered if there are at least two trades, with each trade being of a minimum Rs 5 crores face value, aggregating to Rs. 25 crores or more for same or similar security on a public platform*

For instruments maturing below 1 year:

The weighted average yield / price of traded securities (excluding inter scheme transfers of others and own trades of PGIM India Mutual Fund) will be taken if there are at least three trades, with each trade being of a minimum Rs. 25 crores face value, aggregating to Rs. 100 crores or more for same or similar security on a public platform*

Criteria for identifying similar securities in case of securities having residual maturing below 31 days:

Similar security should be identified by the following waterfall logic, provided that the maturity date of the security is within the same calendar quarter and should have a residual maturity of upto 30 days:

1) Same issuer and same type of asset, with maturity date within ±7 calendar days of maturity date of security shall be considered first and should have a residual maturity upto 30 days. If no such instance is available, then Step 2. will be followed.

Example: For Punjab National Bank CD maturing on March 6, 2019, all secondary market trades of Punjab National Bank CDs maturing within February 27, 2019 to March 13, 2019 will be considered first.

Similar security from a different issuer within the same category (PSU Bank, Private Bank or Financial Institution etc.) and

2) similar long term credit rating**, with maturity date within ±7 calendar days of maturity date of security will be considered and should have a residual maturity upto 30 days.

Example: For Punjab National Bank CD maturing on March 6, 2019, all secondary market trades of similar public sector bank CDs maturing within February 27, 2019 to March 13, 2019 will be considered first

In case of banks CDs –

- Issuer of the Securities having long term rating of AAA and/or AA+ and short term rating of A1+ will be considered as comparable.

- Issuer of the Securities having long term rating of AA and/or AA- and short term rating of A1+ will be considered as comparable.

Issuer of the Securities having long term rating of A+ and below and short-term rating of A1+ will be considered as comparable.

Criteria for identifying similar securities in case of securities having residual maturing above 30 days:

Similar security should be identified by the following waterfall logic, provided that the maturity date of the security is within the same calendar quarter :

1) Same issuer and same type of asset, with maturity date within ± 15 working days of maturity date of security shall be considered first. If no such instance is available, then Step 2 will be followed:

   Example: For Punjab National Bank CD maturing on March 6, 2019, all secondary market trades of Punjab National Bank CDs maturing within February 12, 2019 to March 28, 2019 will be considered first.

2) Similar security from a different issuer within the same category (PSU Bank, Private Bank or Financial Institution etc.) and similar long term credit rating**, with maturity date within ± 15 working days of maturity date of security will be considered.

   Example: For Punjab National Bank CD maturing on March 6, 2019, all secondary market trades of similar public sector bank CDs maturing within February 12, 2019 to March 28, 2019 will be considered.

In case of banks CDs –

- Issuer of the Securities having long term rating of AAA and/or AA+ and short term rating of A1+ will be considered as comparable.

- Issuer of the Securities having long term rating of AA and/or AA- and short term rating of A1+ will be considered as comparable.

- Issuer of the Securities having long term rating of A+ and below and short term rating of A1+ will be considered as comparable.

  - **Note:**
  - Outlier trades, if any, will be ignored after recording suitable justification.
  - If due to the non-availability of traded securities, at the time of the IST, the above mentioned criteria cannot be fulfilled, the IST would be done at the previous day's price/yield.

  - * Public Platform refers to:
  - F-TRAC / Corporate Bond Reporting Platform (CBRICS) / Indian Corporate Debt Market(ICDM) / Negotiated Dealing System - Order Management (NDS-OM) / MSE FIRST: For corporate bonds / debentures, commercial papers, certificate of deposits and securitized debt.
  - F-TRAC / Corporate Bond Reporting Platform (CBRICS) / Indian Corporate Debt Market(ICDM) / Negotiated Dealing System - Order Management (NDS-OM) / MSE FIRST: For corporate bonds / debentures, commercial papers, certificate of deposits and securitized debt.
  -

Annexure 4: Floating Rate Valuation Summary

Marketable Benchmarks

	FRN1	FRN2	FRN3	FRN4	FRN5
Benchmark	Market determined & amenable to forecasting	Market determined & amenable to forecasting	Market determined & amenable to forecasting	Market determined & amenable to forecasting	Market determined & amenable to forecasting
eg:	MIBOR/ Reverse Repo / Repo/ T-bill/ GSec / (corporate bond benchmarks single or index)	MIBOR/ Reverse Repo / Repo/ T-bill/ GSec / (corporate bond benchmarks single or index)	MIBOR/ Reverse Repo / Repo/ T-bill/ GSec/(corporate bond benchmarks single or index)	MIBOR/ Reverse Repo / Repo/ T-bill/ GSec/(corporate bond benchmarks single or index)	MIBOR/ Reverse Repo / Repo/ T-bill/ GSec/ (corporate bond benchmarks single or index)
Spread	Fixed	Fixed	Fixed	Fixed for part tenor	Fixed for part tenor
Early exit	No early exit	Free investor prerogative notwithstanding any issuer action or lack of it	Conditional exits irrespective of any conditionality or issuer action	Free investor prerogative notwithstanding any issuer action or lack of it	Conditional exits irrespective of any conditionality or issuer action

Cashflows considered for valuation	Till maturity	Each such exit option will be treated as a put option, i.e. The cashflows will be drawn for each put option and till maturity the best price will be considered.	Till maturity	Each such exit option will be treated as a put option, i.e. The cashflows will be drawn for each put option and till maturity the best price will be considered.	Till maturity

Cashflows for Valuation						
Numerator		**FRN1**	**FRN2**	**FRN3**	**FRN4**	**FRN5**
Summation of	Benchmark	Forward rates for full tenor	Forward rates till first exit option	Forward rates for full tenor	Forward rates till first exit option	Forward rates for full tenor
	Spread	As given for full tenor	As given till first exit option	As given for full tenor	As given till first exit option	As given for full tenor
Denominator						

Summation of	Benchmark	Cash bond rate for applicable tenor as per numerator	Cash bond rate for applicable tenor as per numerator	Cash bond rate for applicable tenor as per numerator	Cash bond rate for applicable tenor as per numerator	Cash bond rate for applicable tenor as per numerator
	Discount / Premium Factor**	For the applicable tenor	For the applicable tenor	For the applicable tenor	For the applicable tenor	For the applicable tenor
Maturity (if required	Till the full tenor	Till the full tenor	Till the full tenor	Till the full tenor	Till the full tenor	Till the full tenor
Duration	Till next benchmark reset date	Till next benchmar k reset date	Till next benchmark reset date	Till next benchmark reset date	Till next benchmark reset date	Till next benchmark reset date

**a bps factor that equates the fully hedged floating bond coupon to the fixed rate bond yield on day 1, and subsequently whenever a trade happens in the same / similar floating rate bond

Non-Marketable Benchmarks

	FRN1	FRN2	FRN3	FRN4	FRN5
Benchmark	Non-Market determined	Non-Market determined	Non-Market determined	Non-Market determined	Non-Market determined
eg:	MCLR / PLR / any Benchmark where the benchmark setter has the prerogative to change unilaterally	MCLR / PLR / any Benchmark where the benchmark setter has the prerogative to change unilaterally	MCLR / PLR / any Benchmark where the benchmark setter has the prerogative to change unilaterally	MCLR / PLR / any Benchmark where the benchmark setter has the prerogative to change unilaterally	MCLR / PLR / any Benchmark where the benchmark setter has the prerogative to change unilaterally
Spread	Fixed	Fixed	Fixed	Fixed for part tenor	Fixed for part tenor
Early exit	No early exit	Free investor prerogative notwithstanding any issuer action or lack of it	Conditional exits irrespective of any conditionality	Free investor prerogative notwithstanding any issuer action or lack of it	Conditional exits irrespective of any conditionality
Cashflows considered for valuation	Till maturity	Each such exit option will be treated as a put option,	Till maturity	Each such exit option will be treated as a put option, i.e. The	Till maturity

		i.e. The cashflows will be drawn for each put option and till maturity the best price will be considered.		cashflows will be drawn for each put option and till maturity the best price will be considered.	

Cashflows for Valuation						
Numerator		**FRN1**	**FRN2**	**FRN3**	**FRN4**	**FRN5**
Summation of	Benchmark	Current benchmark till maturity, in case of floor cap, floor benchmark for all future cashflows post first	Current benchmark till first exit option, floor benchmark for all future cashflows post first reset (if any), if that falls before first exit date	Current benchmark till maturity, in case of floor cap, floor benchmark for all future cashflows post first reset (if any)	Current benchmark till first exit option, floor benchmark for all future cashflows post first reset (if any), if that falls before first exit date	Current benchmark till maturity, in case of floor cap, floor benchmark for all future cashflows post first reset (if any)

		reset (if any)				
	Spread	As given for full tenor, floor spread post first reset (if any)	As given till first exit, floor spread post first reset (if any), if that falls before first exit	As given for full tenor, floor spread post first reset (if any)	As given till first exit, floor spread post first reset (if any), if that falls before first exit	As given for full tenor, floor spread post first reset (if any)
Denominator						
Summation of	Benchmark	Cash bond rate for applicable tenor	Cash bond rate for applicable tenor	Cash bond rate for applicable tenor	Cash bond rate for applicable tenor	Cash bond rate for applicable tenor
	Discount / Premium Factor**	For the applicable tenor	For the applicable tenor	For the applicable tenor	For the applicable tenor	For the applicable tenor
Maturity (if required	Till the full tenor	Till the full tenor	Till the full tenor	Till the full tenor	Till the full tenor	Till the full tenor
Duration	Basis the numerator	Basis the numerator	Basis the numerator	Basis the numerator	Basis the numerator	Basis the numerator

	cashflows drawn	cashflows drawn	cashflows drawn	cashflows drawn	cashflows drawn	cashflows drawn

**a bps factor that equates the fully hedged floating bond coupon to the fixed rate bond yield on day 1, and subsequently whenever a trade happens in the same / similar floating rate bond

Disclosed Yield or Disclosed YTM calculation – FRB

XYZ scheme

	FV (Rs crs)	Coupon, which is used for int accural	Price	Acc int	MV Rs crs	% of AUM	YTM	Avg Mat	Duration
Fixed Bonds	70	6.00%	96.750	1.250	68.975	69.3%	6.50%	10.000	6.500
FRB M+150	30	5.00%	100.500	0.350	30.500	30.7%	4.96%	3.000	0.003
IRS	0				0.000	0.0%			
M	0	3.50%			0.000	0.0%	3.50%		
	100				99.475	100.0%	6.03%	7.854	4.508

XYZ scheme

	FV (Rs crs)	Coupon, which is used for int accural	Price	Acc int	MV Rs crs	% of AUM	YTM	Avg Mat	Duration	
Fixed Bonds	70	6.00%	96.750	1.250	68.975	69.3%	6.50%	10.000	6.500	
FRB M+150	30	5.00%	100.500	0.350	30.500	30.7%	4.96%	3.000	0.003	3 yr Mibor + 150 paper; Coupon divided by dirty pric for YTM calc
IRS recd	15	4.85%	100.090	0.004	15.018	15.1%	4.80%	2.000	1.800	2 yr IRS recd
M paid	-15	3.50%	100.000	0.003	-15.003	-15.1%	3.50%	2.000	0.003	
	100				99.490	100.0%	6.22%	7.853	4.779	

XYZ scheme

	FV (Rs crs)	Coupon, which is used for int accural	Price	Acc int	MV Rs crs	% of AUM	YTM	Avg Mat	Duration	
Fixed Bonds	70	6.00%	96.750	1.250	68.975	69.4%	6.50%	10.000	6.500	
FRB M+150	30	5.00%	100.500	0.350	30.500	30.7%	4.96%	3.000	0.003	3 yr Mibor + 150 paper; Coupon divided by dirty price for YTM calc
IRS paid	-15	5.00%	100.110	0.004	-15.021	-15.1%	5.04%	3.000	2.750	3 yr IRS paid
M recd	15	3.50%	100.000	0.003	15.003	15.1%	3.50%	3.000	0.003	
	100				99.458	100.0%	5.80%	7.855	4.094	

Annexure 5 - Waterfall Mechanism [AMFI Circular dated November 18, 2019]

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

1. Waterfall mechanism for valuation of money market and debt securities:

The following shall be the broad sequence of the waterfall for valuation of money market and debt securities:

i. Volume Weighted Average Yield (VWAY) of primary reissuances of the same ISIN (whether through book building or fixed price) and secondary trades in the same ISIN.

ii. VWAY of primary issuances through book building of same issuer, similar maturity (Refer Note 1 below)

iii. VWAY of secondary trades of same issuer, similar maturity

iv. VWAY of primary issuances through fixed price auction of same issuer, similar maturity

v. VWAY of primary issuances through book building of similar issuer, similar maturity (Refer Note 1 below)

vi. VWAY of secondary trades of similar issuer, similar maturity.

vii. VWAY of primary issuance through fixed price auction of similar issuer, similar maturity

viii. Construction of matrix (polling may also be used for matrix construction)

ix. In case of exceptional circumstances, polling for security level valuation (Refer Note 2 below)

Note 1

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

Note 2

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

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

Note 3

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

Note 4

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

The following events would be considered exceptional events:

i. Monetary / Credit policy

ii. Union budget

iii. Government borrowing / Auction days

iv. Material statements on sovereign rating

v. Issuer or Sector specific events which have a material impact on yields

vi. Central Government election days

vii. Quarter end days

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

2. Definition of tenure buckets for similar maturity

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

Residual tenure of bond to be priced	Criteria for similar maturity
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 wwith residual tenure of less than 90 days and more than 90 days are markedly different even though both may fall within thesame 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

Volume criteria for recognition of trades (marketable lot)

As required under Para 1.1.1.1(a) of SEBI vide circular no. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019, 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.

i. 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.

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**	**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.

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

ii. **<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.

iii. **Trading Volume (Traded days) based criteria**

Number of unique days an issuer trades in the secondary market or issues a new security in the primary market in a calendar quarter :

Liquid	>=	50% of trade days
Semi Liquid	>=	10% to 50% trade days
Illiquid	<	10 % of trade days

iv. **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 A1+/AAA CD Bank matrix).

The thresholds shall be periodically reviewed and updated having regard to the market.

The best classification (liquid being the best) from the above two criteria (trading volume and spread based) shall be considered as the final liquidity classification of the issuer. The above classification shall be carried out separately for money market instruments (CP/ CDs) and bonds.

5. Process for construction of spread matrix

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

Steps	**Detailed Process**
Step 1	**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 NDS-OM, 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.

PGIM India Mutual Fund

Annexure 6 – Haircuts for below investment grade instruments

The indicative haircut communicated by AMFI vide its communication dated April 30, 2019 for debt and money market instruments below investment grade is as follows:

Haircuts for senior, secured securities

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

1. Haircuts on subordinated and unsecured (or both) securities

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

Annexure 7 – AMFI Guidelines on AT-1 Bonds & Tier-2 Bonds

1. Currently a bond is considered traded, if there is at least one trade in market lot in that particular ISIN. If the bond does not get traded there is a defined waterfall mechanism for valuation of that bond as per AMFI Best Practice Guideline circular no. NO.83 / 2019-20 dated November 18, 2019.

2. The said waterfall requires grouping of same issuer with similar maturity and similar issuers with similar maturity. However, in case any ISIN of issuer has not traded, the valuation of AT-1 Bonds is currently done based on adjusting spread directly to the benchmark security.

3. In order to improve existing valuation of these bonds and implement the defined waterfall, following is proposed to be done:

   i. 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.

   ii. 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.

4. If the ISIN gets traded, the traded YTM will be taken for the purpose of valuation. Further, 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. 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. 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.

5. Further, 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.

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

Points 4, 5 & 6 have been further elaborated in detailed Illustration below.

7. AMCs shall adopt maturity of 100 years for perpetual bond issued by banks. There will be a glide path for smooth implementation. The Deemed Residual Maturity for the Purpose of Calculation of valuation as well as Macaulay Duration for existing as well as new perpetual bonds issued:

Time Period	**Deemed Residual Maturity (Years)**
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.

8. Hitherto, Mutual Fund industry used to value Tier II bonds considering first call date as a deemed maturity date. Therefore, a glide path is required for valuation as well as calculation of Macaulay Duration for tier II bonds also. Accordingly, valuation methodology, as mentioned above, for AT-1 Bonds is to be followed for the valuation of tier II bonds also. Further, the Macaulay Duration is proposed to be calculated as under for Tier II bonds:

Time Period	**Deemed Residual Maturity for all securities (Years)**
April 01, 2021 – March 31, 2022	10 years or contractual maturity whichever is earlier
April 01, 2022 onwards	Actual Maturity

9. Besides, 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 100years from the date of issuance for AT-1 Bonds and Contractual Maturity for Tier 2 bonds, for all ISINsof the issuer.

10. It is confirmed that the Macaulay Duration of ISINs will be calculated based on the deemed residual maturity proposed in para 7 and 8 above to reflect the duration risk.

11. Further, henceforth mutual funds will disclose both Yield to Call and Yield to Maturity.

Illustration for point 4 to 6

ABC and XYZ are similar issuer and similar maturity:

Maturity of ISIN 1 of ABC is near to maturity of ISIN 1 of XYZ & Maturity of ISIN 2 of ABC is near to maturity to ISIN 2 of XYZ

Issuers	**ABC**		**XYZ**		**Valuation of ABC ISIN 1**
Trade	**ISIN 1**	**ISIN 2**	**ISIN 1**	**ISIN 2**	
Traded Today	Y	-	-	-	Take price and arrive at YTM
Traded Today	N	Y	-	-	Take price of ISIN 2 of ABC and compute YTM of ISIN 2. Then adjust the YTM spread of ISIN 1 and ISIN 2 and compute value of ISIN 1 of ABC.
Traded Today	N	N	Y	N	From the price of ISIN 1 of XYZ compute YTM. The spread between YTM of ABC ISIN 1 and XYZ ISIN 1 is to be adjusted to derive YTM of ABC ISIN 1. The spread should further be adjusted to reflect adverse news, change in credit rating, interest rate etc., which has bearing on the yield of ISIN being valued and final YTM and price of the security should be computed.

Traded Today	N	N	N	Y	From the price of ISIN 2 of XYZ compute YTM of ISIN 2 of XYZ. Then derive YTM of ISIN 1 of XYZ by adjusting spread of YTM. Then by adjusting difference in spread between ISIN 1 of XYZ and ISIN 1 of ABC trade (which happens to be nearest maturity) arrive at YTM of ISIN 1 of ABC. The spread should be adjusted to reflect adverse news, change in credit rating, interest rate etc., which has bearing on the yield of ISIN being valued.
No trade today. Check for actual trade during look back	Y	-	-	-	Take YTM of traded day and adjust spread to the movement of benchmark ISIN over the period. Also adjust to reflect adverse news, change in credit rating, interest rate etc., which has bearing on the yield of ISIN being valued.
No trade today. Check for actual trade during look back	N	Y	-	-	Arrive at YTM of ISIN 2 by adjusting spread to the movement of benchmark ISIN over the period. Derive YTM of ISIN 1 of ABC from ISIN 2 of ABC by adjusting spread over YTM. Also adjustment should be done to reflect adverse news, change in credit rating, interest rate etc., which has bearing on the yield of ISIN being valued.
No trade today. Check for actual trade during look back	N	N	Y	N	Arrive at YTM of ISIN 1 of XYZ by adjusting spread to the movement of benchmark ISIN over the period. Then the spread of YTM of XYZ ISIN 1 and ABC ISIN 1 is to be adjusted to arrive at YTM of ISIN 1 of ABC. Also, adjustment will be done to reflect adverse news, change in credit rating, interest rate etc., which has bearing on the yield of ISIN being valued.
No trade today. Check for actual	N	N	N	Y	Take YTM of ISIN 2 of XYZ by adjusting spread to the movement of benchmark ISIN over the period. Adjust the spread of YTM of ISIN 1 of XYZ and ISIN 2 of XYZ to arrive at YTM of ISIN 1 of XYZ. YTM of ISIN I of ABC will be derived by \\adjusting spread of YTM of ISIN 1 of XYZ to ISIN 1 of ABC (which appears to be a nearest maturity to ABC ISIN 1).

trade during look back					Further, YTM will be adjusted to reflect adverse news, change in credit rating, interest rate etc., which has bearing on the yield of ISIN being valued.
Not Traded During look back	N	N	N	N	Valuation will be done considering spread over matrix and/or polling in line with the waterfall mechanism prescribed by AMFI.

Note: The duration to call shall not be considered/adjusted to spread over YTM. Yield to Call and Yield to Maturity shall be disclosed to investors