MIRAE ASSET
Building on principles

MIRAE ASSET GLOBAL INVESTMENTS (INDIA) PVT. LTD.

INVESTMENT VALUATION MANUAL

Jun – 2019

MIRAE ASSET GLOBAL INVESTMENTS (INDIA) PVT. LTD.

INVESTMENT VALUATION MANUAL

INDEX

SECTION III: RELEVANT CIRCULARS REGARDING VALUATION

1. SEBI Circular No: MFD/CIR/011/091/2000 dated February 1, 2000 Re: Guidelines for Participation by Mutual Funds in Trading in Derivative Products
2. Circular No. CIR/ 8 / 92 / 2000 dated September 18, 2000 Guidelines for valuation of securities for Mutual Funds
3. Circular No. MFD/CIR/14 /088 / 2001 dated March 28, 2001 Guidelines for valuation of securities
4. Circular No. MFD/CIR No.14/442/2002 dated February 20, 2002 Traded Securities.
5. Circular No. MFD/CIR/03/526/2002 dated May 9, 2002 Investment in Unlisted Equity Shares
6. Circular No. MFD/CIR.No 23 / 066 /2003 dated March 7, 2003.
7. Circular No.SEBI/IMD/CIR No. 9/141601/08 dated October 18, 2008
8. Circular No. SEBI / IMD / CIR No. 2/166256/ 2009 June 12, 2009
9. Circular No SEBI/IMD/CIR No.16/ 193388/2010 dated 02/02/2010 on Valuation of Debt Securities
10. SEBI (MUTUAL FUNDS) (AMENDMENT) REGULATIONS, 2012 on 21st February, 2012.
11. AMFI Circulars/Notes on Valuation

Mirae Asset Global Investments (India) Pvt. Ltd.

INVESTMENT VALUATION MANUAL

INTRODUCTION:

The Securities and Exchange Board of India (SEBI) has outlined investment valuation norms and accounting policies under SEBI (Mutual Funds) Regulations, 1996 as amended from time to time. The Investment Valuation Norms are defined in the Eighth Schedule of the regulations (regulation 47) and circulars issued by SEBI from time to time.

In accordance with the SEBI Circular MFD/CIR No.010/024/2000 dated January 17, 2000 every AMC should formulated valuation committee to review investment valuation practices. Valuation committee of AMC generally consists of Head of Operations, Chief Investment Officer, Managing Director, Chief Compliance Office and by invitation, Fund Managers. This committee reviews the investment policies on regular basis. Chief Compliance Officer records the decisions and discussions of the meeting. Any change in the existing valuation policies/methods should be recommended by the Valuation Committee and approved by the Board of AMC and Trustee Company of Mirae Asset Mutual Fund.

The objective of this manual is to specify methodology and the manner in which instruments and investments should be valued by AMC. The objective is also to elaborate on the SEBI valuation norms.

Section I covers the Investment Valuation Norms for traded securities. This involves selection of a particular exchange to value the stocks of the Mutual Fund and laying down procedures to follow while determining the traded price.

Since all investments of the Mutual Fund are to be marked to market on a regular basis, the valuation of unlisted, thinly traded and non-traded securities becomes an important issue. Valuations of such investments have to reflect a true market value. The valuation methods must be objective, fair, transparent, simple and must employ publicly available information. SEBI has prescribed methods of valuation like the P/E method for shares, YTM method for debt instruments etc. The same has been explained in **Section II** in detail.

SECTION I

VALUATION NORMS FOR TRADED SECURITIES

INTRODUCTION:

1. EQUITY AND EQUITY RELATED SECURITIES:

1.1 EQUITY

SEBI Regulations has prescribed following methodology for valuation of Equity and Equity related securities:

Traded Securities are to be valued at the last quoted closing price on the primary Stock Exchange. Where security is not traded on the primary stock exchange, the last quoted closing price of another Stock Exchange may be used. If a security is not traded on any stock exchange on a particular valuation day, the value at which it was traded on the primary 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 thirty days prior to the valuation date.

(Ref: SEBI (Mutual Fund) Regulations, 1996 Schedule VII and amendments through SEBI Circular No. MFD/CIR No.14/442/2002 dated February 20, 2002.)

The steps involved in valuation of traded securities are:

(i) Selection of appropriate Stock Exchange by Asset Management Company (AMC) and valuing the security at the closing price on the date of valuation.

(ii) Valuing security at the closing price of another Stock Exchange, if it is not traded on the valuation date on the Stock Exchange as selected at (i) above.

(iii) Valuing security at the earliest previous day's quotes of selected stock exchange or any other stock exchange as the case may be (being not more than thirty days prior to valuation date).

Clearly, for reasons of speed and regular flow of data in electronic form, the choice of stock exchange for trading is limited to the two premier exchanges of India - the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). Both these exchanges have electronic trading, greater transparency, quicker and more efficient settlements, which enable better cash management, and are popular with other major institutions.

Process to be followed at Mirae Asset Mutual Fund for valuation of traded equity and equity related securities:

For valuation purposes The National Stock Exchange (NSE) has been selected as appropriate stock exchange for equity and equity related securities held by all the schemes.

Wherever equity and equity related securities are not listed on The National Stock Exchange (NSE) or are not traded on a certain day at The National Stock Exchange (NSE), the closing price at the Bombay Stock Exchange (BSE) should be considered, followed by any other regional exchanges.

In case of securities which have been allotted under preferential / private allotment and are not listed or traded on the selected stock exchanges, the scrip is valued at last quoted price on the Stock Exchange where it is traded (provided the last quoted price is not more than thirty days prior to the valuation date.)

To summarize, if a security is not traded on any stock exchange on a particular valuation day, the value at which it was traded on the other stock exchange, on the earliest previous day is used, provided such day is not more than thirty days prior to the valuation date. For this purpose priority of stock exchange set is, NSE followed by BSE and then by any other stock exchange.

Similar methodology is to be used for valuation of preference shares.

If the equity securities are not traded on any stock exchange for a period of thirty days prior to the valuation date, the scrip must be treated as `non-traded' scrip and should be valued as non-traded security as per the norms given separately by us in **Section II** and also in case of equity securities not listed on any stock exchange, the scrip is to be valued as per the norms given separately in **Section II.**

i. **Selection of stock exchange for valuation:**

Board of AMC for all its equity and equity related securities has selected NSE as appropriate stock exchange for the valuation of securities.

Appropriate stock exchange that would be considered for valuation is also specified in the scheme offer document.

ii. **Change in the selected Stock Exchange:**

In case selected stock exchange for valuation of any or all securities is to be changed, reasons for change have to be recorded in writing by the valuation committee and approved by the Board of AMC.

Traded securities also include Thinly Traded securities and Suspended securities.

i) **Thinly traded Equity/Equity Related Securities:**

Thinly traded equity/ equity related security is defined in SEBI (Mutual Fund) Regulations as follows:

When trading in an equity/equity related security (such as convertible debentures, equity warrants, etc.) in a month is both less than Rs. 5 lacs and the total volume is less than 50,000 shares, it shall be considered as thinly traded security and valued accordingly. **Ref: SEBI Circular No. MFD/CIR/14 /088 / 2001 dated March 28, 2001**.

It is evident that any security to qualify as thinly traded security it should satisfy both the aforesaid conditions.

Process to be followed at Mirae Asset Mutual Fund for determining whether security is thinly traded

In order to determine whether a security is thinly traded or not, the volumes traded in Bombay Stock Exchange (**BSE**) and National Stock Exchange (**NSE**) for the last month are considered.

On the continues basis service vendors viz. Bilav software Pvt. Ltd. send soft copy containing scrip-wise volume on BSE and NSE. This data is used to determine whether any of the equity security held in the portfolio is thinly traded.

Please refer to **Section II** for valuation of thinly traded equity / equity related securities.

ii) **Thinly traded Debt securities:**

Thinly traded debt security is defined in SEBI (Mutual Fund) Regulations as follows:

A debt security (other than Government Securities) shall be considered as a thinly traded security if on the valuation date, there are no individual trades in that security in marketable lots (currently Rs 5 Crore) on the principal stock exchange or any other stock exchange. **Ref.: SEBI Circular No. MFD/CIR No.14/442/2002 dated February 20, 2002**.

Process to be followed at Mirae Asset Mutual Fund while determining whether security is thinly traded:

In order to determine whether a debt security is thinly traded or not, the volumes traded on NSE and BSE a Whole Sale Debt Market (**WDM**) segment, on the date of valuation should be considered. Volumes traded on NSE WDM and BSE WDM can be obtained from any service provider, or it can be obtained directly from the NSE site / BSE site.

Please refer to **Section II** for valuation of thinly traded debt securities.

1.2 FOREIGN EQUITY

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

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 available traded price for the purpose of valuation will also be based on the practice followed in a particular market.

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

On the Valuation Day, all assets and liabilities denominated in foreign currency will be valued in Indian Rupees at the exchange rate available at 5.00 p.m. The source for the price will be taken in the following order of preference: (a) RBI, (b) Reuters, or (c) any other standard reference rate. In case any exchange rate is not available on the valuation day, the last available rate would be used for valuation.

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

1.2.2 Valuation of Rights shares: Rights shares shall be valued in line with the SEBI regulations as stated below.

Until they are traded, the value of the rights shares should be calculated as:

Vr = n/m (Pex - Pof)

where Vr = Value of rights
n = No of rights shares offered
m = No of original shares held
Pex = Ex-rights price
Pof = Rights offer price

Where the rights are not treated pari passu with the existing shares, suitable adjustment should be made to the value of rights. Where it is decided not to subscribe for the rights but to renounce them and renunciations are being traded, the rights can be valued at the renunciation value.

Process to be followed at Mirae Asset Mutual Fund for valuation of Investment made in Foreign Equity:

1. For valuation purposes, exchanges mentioned in Annexure 1 for different countries, has been selected as appropriate stock exchange for equity and equity related securities held by all the schemes.
2. Due to difference in time zones of different markets, the closing prices of securities available till 5.00 p.m. will be taken for valuation. In case the closing prices of securities are not available within a given time frame as mentioned above, the last available traded price shall be used for the purpose of valuation. The source for the price will be taken in the following order of preference: (a) RBI, (b) Reuters, or (c) any other standard reference rate. In case where any price of a security is not available on the valuation day, the last closing price would be used for valuation.

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

1. When certain portion of the fund is allocated for investment overseas, this will be accounted as purchase of foreign currency. The FX rates will be treated as cost of purchase. This will create FX position in portfolio.

2. When purchase / sales of securities are made, Purchase / sale will be recorded like normal purchase/sale transaction in the portfolio currency (in this case INR). The purchase / sale price plus/minus brokerage & other charges in the foreign currency will be converted to INR at the agreed FX rate

   On the date of settlement the difference between FX reference rates on trade date and actual FX rate used for settlement will be treated as gain / loss due to FX fluctuation.

Daily basis when the closing prices and the currency rates are received Closing prices and FX rate will be applied to the portfolio and unrealized capital gain and FX gain is calculated separately. The closing time for the currency will be taken as 5.00 p.m. The source for the price will be taken in the following order of preference: (a) RBI, (b) Reuters, or (c) any other standard reference rate.

Annexure - 1

	Country	Exchange Name
1.	Australia	Australian Securities Exchange
2.	Hong Kong	Hong Kong Exchange
3.	Indonesia	Indonesia Exchange
4.	Korea	Korea Stock Exchange
5.	Malaysia	Kuala Lumpur Stock Exchange
6.	Philippines	Philippines Stock Exchange
7.	Singapore	Singapore Exchange
8.	Taiwan	Taiwan Exchange
9.	Thailand	Thailand Exchange

1.3 VALUATION OF ADR/GDR

Mutual Fund can invest in ADRs/GDRs in line with the SEBI Circular dated September 1, 1999 and September 30, 1999. Exchange to be considered for valuation of ADRs/GDRs is to be approved by the AMC Board. Process of valuation would be as follows:

i. Receiving last quoted price

If the security is listed in a time zone ahead of ours than the same day price as provided by Reuters would be used for valuation.

If the security is listed in a time zone behind ours than the previous day's price would be used for valuation.

In case the security is not traded on the above mentioned days, price of previous day should be used provided the price is not more than 30 days old.

ii. Converting the price in Indian Rupees (INR)

Since these prices are in foreign currency these are to be converted in Indian Rupees by applying the closing exchange rate on the date of valuation. This closing price in INR should be used for valuation of ADR/GDR. Alternatively closing price of the security should be converted to INR at last day's closing exchange rate of that currency (i.e. the closing rate of the date of which prices are considered). The source for the price will be taken in the following order of preference: (a) RBI, (b) Reuters, or (c) any other standard reference rate.

1.4 STOCK AND INDEX DERIVATIVES:

1.4.1 Equity / Index Options Derivatives

(i) Market values of traded open option contracts shall be determined with respect to the exchange on which contracted originally, i.e., an option contracted on the National Stock Exchange (NSE) would be valued at the closing /settlement option price on the NSE. The price of the same option series on the Mumbai Stock Exchange (BSE) cannot be considered for the purpose of valuation, unless the option itself has been contracted on the BSE.

(ii) The Exchanges give daily closing/settlement prices in respect of all derivatives positions. These closing prices would be adopted for the positions, which are not traded.

1.4.2 Equity / Index Futures Derivatives

(i) Market values of traded futures contracts shall be determined with respect to the exchange on which contracted originally, i.e., futures position contracted on the National Stock Exchange (NSE) would be valued at the closing price on the NSE. The price of the same futures contract on the Mumbai Stock Exchange (BSE) cannot be considered for the purpose of valuation, unless the futures contract itself has been contracted on the BSE.

(ii) The Exchanges give daily closing/settlement prices in respect of all derivates positions. These closing prices would be adopted for the positions, which are not traded.

2. VALUATION OF GOVERNMENT SECURITIES:

2.1 VALUATION OF CENTRAL GOVERNMENT SECURITIES:

SEBI Regulations has prescribed following methodology for valuation of Government Securities:

<u>Valuation with Residual Maturity of upto 30 Days</u>

Government Securities (GSec) & State Govt. Securities (State Development Loans – SDL) for tenor less than 30 days will be valued at the average of the prices provided by approved agencies by AMFI (currently CRISIL and ICRA), till the time CBV can value GSec & SDL upto 30 days.

Once the CBV gets equipped to value GSec & SDL, the valuation will be done as per the amortization process as follows:

For the sovereign securities (including T-Bills) with residual maturity up to 30 days, the amortized price may be used for valuation as long as it is within ±2.5 basis points (bps) (±0.025%) of the reference price. In case the variance exceeds ±2.5 bps of the reference price, the valuation shall be based on the adjusted price as derived by CBV.

<u>Valuation with Residual Maturity of more than 30 Days</u>

Government Securities & State Govt. Securities of tenor more than 30 days will be valued at the average of the scrip – level prices provided by approved agencies by AMFI (currently CRISIL and ICRA).

Process followed at Mirae Asset Mutual Fund for valuation Government Securities:

In accordance with the SEBI regulations, prices released by an agency suggested by AMFI, presently CRISIL, are used for valuation of the Government Securities.

2.2 VALUATION OF STATE GOVERNMENT SECURITIES:

Traded:

Government Securities & State Govt. Securities of any tenor will be valued at the average of the scrip – level prices provided by approved agencies by AMFI (currently CRISIL and ICRA).

3. DEBT SECURITIES OTHER THAN GOVERNMENT SECURITIES:

SEBI Regulations have prescribed following methodology for valuation of Debt securities:

Detailed Process is as under

Debt papers valuation is broadly classified under two categories:

a) Less than or equal to 30 days to Maturity

b) More than 30 days to Maturity

3.1 VALUATION OF TRADED DEBT AND MONEY MARKET INSTRUMENTS WITH RESIDUAL MATURITY OF UPTO 30 DAYS.

All Money market and Debt securities maturing up to 30 days are to be valued by amortization on a straight-line basis to maturity from cost or last valuation price, whichever is more recent, provided the amortized price is reflective of fair value by comparing it to the reference price.

The amortized price may be used for valuation as long as it is within ±0.025% of the reference price (Computed based on CRISIL/ICRA matrices plus applicable Spreads).

In case the variance exceeds ±0.025%, the valuation shall be adjusted to bring it within the ±0.025% band. No further reference need be made to industry traded prices for valuing instruments maturing up to 30 days, as the same are factored in by rating agency while arriving at reference price. Irrespective of amortization, a change in the credit rating or credit profile of the issuer would require a re-evaluation of the appropriateness of the spread.

In case of aggregate self-trade with minimum Face Value of 5 Crores, such security may be uniformly valued across all schemes at that self-traded price/yield.

3.2 VALUATION OF TRADED DEBT AND MONEY MARKET INSTRUMENTS WITH RESIDUAL MATURITY OF > 30 DAYS.

Papers covered under category (a) (>30 days to maturity) are marked to market on daily basis.

The designated agencies (presently, CRISIL and ICRA) provide daily Valuations for the entire spectrum of Debt Securities with residual Maturity exceeding 30 days.

Additional Primary Issuances under same or New ISINs

For new Securities issued (Primary Segment, Phase wise issuance under same ISINs), Valuation should be done at the cost price till the settlement. Post Settlement, such securities will be routinely valued as per the guidelines.

For new Securities issued (Primary Segment, Fresh issuance with Temp ISINs or New ISINs), Valuation should be done at the cost price till the settlement. Post Settlement, such securities will be routinely valued as per the guidelines.

Valuation of BRDS (Bill Re-discounting Scheme) instruments:

BRDS is issued in physical form in the form of usance promissory note.
Sec 45 U of the Reserve Bank of India (Amendment) Act, 2006 defines BRDS as a money market instrument. SEBI Regulations also defines BRDS as money market instrument.

As BRDS is termed as a money market instrument and is a negotiable instrument, the same should be valued similar to other money market instruments as per the extant Valuation policies.

4. VALUATION OF OTHER INSTRUMENTS:

4.1 VALUATION OF RIGHTS ENTITLEMENTS:

As per Schedule VIII of SEBI (Mutual Fund) Regulations

4.1.1 When Company announces rights to the existing equity shareholders, under its Listing Agreement with Stock Exchange; it has to declare ex-right date for the purpose of trading on the Stock Exchange. Ex-right date is a date from which the underlying shares, which are traded on the Stock Exchange, will not be entitled to the rights. These rights entitlements can also be renounced in favour of a willing buyer. These renunciations are in some cases traded on the Stock Exchange. In such case these should be valued as traded equity related securities as detailed at para 1 above.

4.1.2 Till the rights are subscribed, the entitlements as per Regulations have to be valued as under:

Valuation of non-traded rights entitlement is principally the difference between the right price and ex-right price. SEBI Regulations have explained this with the help of following formula:

$V_r = n / m \quad x \quad (P_{ex} – P_{of})$ Where

V_r = Value of Rights

n = Number of rights offered

m = Number of original shares held

P_{ex} = Ex-right price

P_{of} = Rights offer price

4.1.3 The following issues while valuing the rights entitlements have to be addressed:

i) In case original shares on which the right entitlement accrues are not traded on the Stock Exchange on an ex-right basis, right entitlement should not be recognised as investments.

ii) When rights are not treated pari passu with the existing shares such as, restrictions with regard to dividend etc., suitable adjustment should be made by way of a discount to the value of rights at the last dividend announced rate.

iii) Where right entitlements are not subscribed to but are to be renounced, and where renouncements are being traded, the right entitlements have to be valued at traded renunciation value.

iv) Where right entitlements are not traded and it was decided not to subscribe the rights, the right entitlements have to be valued at zero.

v) In case the Rights Offer Price is greater than the ex-rights price, the value of the rights share is to be taken as zero.

4.2 VALUATION OF SUSPENDED SECURITY:

4.2.1 In case trading in an equity security is suspended for trading on the stock exchange up to thirty days, then the last traded price would be considered for valuation of that security.

4.2.2 If an equity security is suspended for trading on the stock exchange for more than thirty days, then it would be considered as non-traded and valued accordingly.

4.3 VALUATION OF INTEREST RATE SWAP (IRS):

Interest Rate swaps will be valued separately than the underlying asset or a portfolio of assets. If the tenure of the IRS is less than 6 months then value of IRS contract would be present value of the difference between the fixed and floating interest to be received/paid on maturity of the contract.

If the tenure is more than 6 months, value of IRS contract would be present value of the difference between the fixed and floating interest to be received/paid on maturity of the contract. Floating rate interest till maturity is the interest accrued till the valuation date plus the interest on remaining period at reversal rate.

Reversal rate for the day would be obtained from Reuters for different maturities. The relevant rate is taken on the basis of maturity of the contract. However, if the maturity date falls between the two years, the reversal rate is arrived by interpolation on valuation date. Detailed methodology would be worked out by CRISIL for valuation of Interest Rate Swap and the same would become part of the Bond Valuer software.

Interpolation time period for valuation of securities shall be increased from 5 days to 15 days on either side of the bucket. (**AMFI circular December 28, 2010)**

Methodology of IRS valuation is tabulated below:

In case of Receive Fixed and Pay Floating:

FIXED Receivable (A)	Notional Contract value * Fixed interest rate * period of contract	XXXXX
REVERSAL RATE	Interest rate as per Reuters	XXX
FLOATING Payable (B)	Accumulated interest till date + (Reversal rate* Compounded face value * No. of days remaining/365)	XXXXXX
NO. OF DAYS REMAINING		XXXX

UNRAELISED GAIN/(LOSS) (C)	(A) – (B)	XXXXX
BALANCE DAYS For NEXT RESET DATE/MATURITY DATE		XXXX
PV ON UNRELIASED G/(L)	(C)/(1+REVERSAL RATE/365*Balance days to maturity/interest reset date	XXXX
Gain/(Loss) Already Provided		XXXX
Mark to Market Loss		XXXX

Effective from 02.04.2014, trades in Bonds will have to be reported in NSE, BSE and/or MCX. There are 2 sections for reporting in NSE:
1. NSEOTC (Transition from FIMMDA to NSE), and 2. NSEWDM.
Any trading of Bonds will be reported in any of the above platforms. The prices for the Bonds will be referred from any of these platforms for the purpose of valuation.

4.4 VALUATION OF UNITS OF MUTUAL FUNDS:

(i) In case of traded Mutual Fund schemes, the units would be valued at closing price on the stock exchange on which they are traded like equity instruments. In case the units are not traded for more than 7 days, last declared NAV would be considered for valuation (NAV is declared by Mutual Fund on weekly basis in case of close-ended schemes.)

(ii) In case of non-traded Mutual Fund scheme, the last declared NAV would be considered for valuation.

As per AMFI circular Dated December 28, 2010 and clarification dated June 30, 2011, MF units listed and traded would be valued at the closing traded price as on the valuation date. Unlisted MF units and listed untraded MF units would be valued at would be valued at the NAV as on the valuation date.

4.5 VALUATION OF GOLD IN CASE OF EXCHANGE TRADED GOLD FUNDS:

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

(a) adjustment for conversion to metric measures as per standard conversion rates;

(b) adjustment for conversion of US dollars into Indian rupees as per the RBI reference rate declared by the Foreign Exchange Dealers Association of India (FEDAI); and

(c) addition of –

(i) transportation and other charges that may be normally incurred in bringing such gold from London to the place where it is actually stored on behalf of the mutual fund; and

(ii) notional customs duty and other applicable taxes and levies that may be normally incurred to bring the gold from London to the place where it is actually stored on behalf of the mutual fund:

Provided that the adjustment under clause (c) above may be made on the basis of a notional premium that is usually charged for delivery of gold to the place where it is stored on behalf of the mutual fund:

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

(2) If the gold acquired by the gold exchange traded fund scheme is not in the form of standard bars, it shall be assayed and converted into standard bars which comply with the good delivery norms of the LBMA and thereafter valued in terms of sub-paragraph (1)

4.6 VALUATION OF EXCHANGE TRADED FUND (ETF)

ETFs shall be valued at closing prices available on the stock exchange. (NSE/BSE).

SECTION II

VALUATION NORMS FOR NON-TRADED SECURITIES

INTRODUCTION:

A. Two distinct definitions for recognition as non-traded securities are noted.

i) If the equity securities are not traded on any stock exchange for a period of thirty days prior to the valuation date, the scrip must be treated as `non-traded' scrip

ii) If the debt securities are not traded on any stock exchange for a period of fifteen days prior to the valuation date, the scrip must be treated as `non-traded' scrip.

B. Basic Conditions of valuation of Non-traded / Thinly traded Securities

The Regulations prescribe following conditions for valuation of non-traded securities:

i) Non-traded securities shall be valued in `good faith' on the basis of the valuation principles laid down by SEBI.

ii) The basis should be appropriate valuation methods on the principles approved by Board of AMC.

iii) Such basis should be documented in Board minutes

iv) Methods used to arrive at good faith valuation should be periodically reviewed by the Trustees.

v) Methods used to arrive at good faith valuation should be such that the auditors report the same as `fair and reasonable' in their report on the annual accounts.

Process to be followed at Mirae Asset Mutual Fund for valuation of non-traded securities

1. EQUITY AND EQUITY RELATED SECURITIES:

1.1 APPLICATION MONEY FOR PRIMARY MARKET ISSUE:

i) Application money should be valued at cost up to 30 days from the closure of the issue. If the security is not allotted within 30 days from the closure of the issue, application money is to be valued as per the directives of valuation committee. Rationale of valuing such application money should also be recorded.

ii) Equity securities allotted and proposed to be listed, but not listed, are to be valued at cost till three months from the date of allotment and after three months, are to be valued as unlisted securities. Method of valuing unlisted equity is stated at para 1.3 below.

1.2 NON-TRADED / THINLY TRADED EQUITY

A. As per SEBI Circular No. MFD/CIR/ 8 / 92 / 2000 dated September 18, 2000 non traded / thinly traded equity is to be valued s follows:

(a) Based on the latest available Balance Sheet, net worth shall be calculated as follows:

(b) Net Worth per share = [share capital+ reserves (excluding revaluation reserves) – Misc. expenditure and Debit Balance in P&L A/c] Divided by No. of Paid up Shares.

(c) Average capitalisation rate (P/E ratio) for the industry based upon either BSE or NSE data (which should be followed consistently and changes, if any noted with proper justification thereof) shall be taken and discounted by 75% i.e. only 25% of the Industry average P/E shall be taken as capitalisation rate (P/E ratio). Earnings per share (EPS) of the latest audited annual accounts will be considered for this purpose.

(d) 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% for ill-liquidity so as to arrive at the fair value per share.

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

(f) 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.

(g) In case an individual security accounts for more than 5% of the total assets of the scheme, an independent valuer shall be appointed for the valuation of the said security.

B. In line with these guidelines issued by SEBI, Mirae Asset Mutual Fund non-traded / thinly traded securities should be valued as follows:

1.2.1 Net worth per share is computed as follows:

i) Net worth of the company = Paid up share capital + Reserves other than Revaluation reserve - Miscellaneous expenditure, debit balance in Profit and Loss account and certain contingent liabilities.

ii) Net worth per share = (Net worth of the company / Number of paid up shares).

1.2.2 Computation of capitalised value of earning per share (EPS):

i) Determination of the Industry Price Earning Ratio (P/E) to which the company belongs.

- The definition of industry in India is not clear. It is observed that different funds use different classification of industry. A clear example is of a company producing `synthetic yarn', which is an important input for textile companies and therefore should be classified under textile industry, though it is often classified under petrochemical industry since it is a petrochemical product.
- Therefore, the classification of industries should be adopted consistently from database used for analysis of the companies by the AMC, such as Capital Market, Prowess (CMIE), etc.
- Presently Industry P/E Ratio used is provided by NSE on a monthly basis. However, the P/E ratio data if not available from BSE/NSE, P/E provided by the sources mentioned above should be taken.

ii) Compute EPS from the latest audited annual accounts. In case the EPS is negative, EPS value shall be considered as zero

iii) Compute capitalised value of EPS at 75% discount
(P/E*0.25) * EPS

1.2.3 Computation of fair value per share to be considered for valuation at 10 % discount for illiquidity.

[(Net worth per share + Capitalised value of EPS) / 2] * 0.90

The fair value arrived at as per the method prescribed above is compared with the last traded price on the stock exchange and the lower of the two is considered for valuation.

1.2.4 In case the latest balance sheet i.e. balance sheet prepared within nine months from the close of the accounting year of the company, is not available (unless the accounting year is changed) the shares should be valued as zero.

1.2.5 In case an individual non traded / thinly traded security as valued aforesaid, accounts for more than 5% of the total asset of the scheme, AMC should appoint an independent valuer. The security shall be valued on the basis of the valuation report of the valuer.

1.2.6 To determine if a security accounts for more than 5% of the total assets of the scheme, it should be valued by the procedure above and the proportion which it bears to the total net assets of the scheme to which it belongs would be compared on the date of valuation.

1.3 VALUATION OF UNLISTED EQUITY:

A. **SEBI Circular No. MFD/CIR/03/526/2002 dated May 9, 2002** has prescribed the method of valuation for unlisted equity securities. These guidelines are similar to the guidelines issued by SEBI for non traded / thinly traded securities mentioned above only except the following:

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

(a) i) Net worth of the company = Paid up share capital + Reserves other than Revaluation reserve - Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses.

ii) Net worth per share = (Net worth of the company / Number of paid up shares).

(b) i) Net worth of the company = Paid up capital + Consideration on exercise of Option/Warrants received/receivable by the company + free reserves other than Revaluation reserve – Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses.

ii) Net worth per share = (Net worth of the company/{Number of paid-up shares + number of shares that would be obtained on conversion/exercise of outstanding warrants and options}).

If the net worth of the company is negative, the share should be marked down to Zero.

1.3.2 Computation of fair value per share to be considered for valuation **at 15 % discount** for illiquidity.
[(Net worth per share + Capitalised value of EPS) / 2] * 0.85

1.3.3 In case the latest balance sheet i.e. balance sheet prepared within nine months from the close of the accounting year of the company, is not available (unless the accounting year is changed) the shares should be valued as zero.

1.3.4 At the discretion of the AMC and with the approval of the trustees, an unlisted equity scrip may be valued at a price lower than the value derived using the aforesaid methodology.

B. In line with these guidelines issued by SEBI, unlisted equity shares are valued at Mirae Asset Mutual Fund as follows:

Value of the unlisted equity security is arrived as per the methodology prescribed by SEBI and then that value is reported to valuation committee.
Security is valued at the least of these two values.
In other words unlisted equity security is valued at the least of the following values:

1. Value computed as per the SEBI guidelines
2. Cost of acquisition

This process is documented and reason if any for not considering least of these values or considering the valuation lower than the least, is also recorded in the valuation paper.

1.4 VALUATION OF NON -TRADED WARRANTS: (As per Eighth Schedule to SEBI (Mutual Fund Regulations)

In respect of warrants to subscribe for shares attached to instruments, the warrants can be valued similarly to the valuation of convertible portion of debentures as mentioned in the paragraph 2.3, as reduced by the amount which would be payable on exercise of the warrant. If the amount payable on exercise of the warrants is higher than the value of the share, the value of the warrants should be taken as zero.

Value of Warrant = [Value of share computed as stated in the paragraph above - exercise price].

1.5 VALUATION OF PREFERENCE SHARES:

SEBI has not prescribed valuation policy for valuing non-traded/unlisted preference shares as it has stated in case of equity shares.

In case of convertible preference shares, valuation guidelines relating to convertible debentures can be applied.

Non-convertible preference shares can be considered as Non-convertible debentures for the purpose of valuation. In case, dividend is not received, it would be treated as NPA.

1.6 VALUATION OF SHARES ON DE-MERGER:

On de-merger following possibilities arise which influence valuation these are:

i. **All the demerged shares are traded immediately on de-merger:** In this case all the demerged shares are valued at respective traded prices.

ii. **Shares of only one company continue to be traded on de-merger:**
In case where one entity is demerged into two or more entities and one of those entities continues to be listed, the value of unlisted entity will be calculated as the difference between the closing price of the security that continues to be listed on the previous trading day (before demerger) and ex-date (after demerger). The difference in price of two dates will be the valuation price of the unlisted entity/entities proportionately, till they are listed and traded on a stock exchange. The benefit of this method of valuation is that it is not a subject matter and is determined based on the market price.
The same would be reviewed by the valuation committee every 30 days if the security is not listed.

iii. **All the demerged shares are not traded on de-merger:** Shares of de-merged companies are to be valued equal to the pre de merger value up to a period of 90 days from the date of de merger. In case shares of all the companies are not traded for more than 90 days, these are to be valued as unlisted security.

1.7 VALUATION OF ILLIQUID SECURITY IN EXCESS OF 15% OF TOTAL ASSETS OF THE SCHEME:

(As per SEBI Circular No. MFD/CIR/ 8 / 92 / 2000 dated September 18, 2000)

Illiquid security means securities defined as non-traded, thinly traded and unlisted equity shares.

As per the SEBI Regulations aggregate value of Illiquid securities should not exceed 15% of the total assets of the scheme and any illiquid securities held above 15% of the total assets shall be assigned zero value.

Provided that in case any scheme has illiquid securities in excess of 15% of total assets as on September 30, 2000 then such a scheme shall within a period of two years bring down the ratio of illiquid securities within the prescribed limit of 15% in the following time frame:

(i) All the illiquid securities above 20% of total assets of the scheme shall be assigned zero value on September 30, 2001.

(ii) All the illiquid securities above 15% of total assets of the scheme shall be assigned zero value on September 30, 2002.

In respect of close-ended funds, for the purpose of valuation of illiquid securities, the limits of 15% and 20% applicable to open-ended funds should be increased to 20% and 25% respectively.

Wherever a scheme has illiquid securities as at September 30, 2001 not exceeding 15% in the case of an open ended funds and 20% in the case of closed ended funds, the concessions of giving time period for reducing the illiquid security to the prescribed limits would not be applicable and at all time the excess over 15% or 20% shall be assigned nil value.

1.8 VALUATION OF NON TRADED / UNLISTED / THINLY TRADED RIGHTS ENTITLEMENTS:

(As per Schedule VIII of SEBI (Mutual Fund) Regulations)

In case right Entitlements are not traded for more than 30 days or unlisted or thinly traded, the same shall be valued as below

1.8.1 When Company announces rights to the existing equity shareholders, under its Listing Agreement with Stock Exchange; it has to declare ex-right date for the purpose of trading on the Stock Exchange. Ex-right date is a date from which the underlying shares, which are traded on the Stock Exchange, will not be entitled to the rights. These rights entitlements can also be renounced in favor of a willing buyer. These renunciations are in some cases traded on the Stock Exchange. In such case these should be valued as traded equity related securities as detailed at Section I above.

1.8.2 Till the rights are subscribed, the entitlements as per Regulations have to be valued as under:

Valuations of non-traded/thinly traded/Unlisted rights entitlement, SEBI Regulations have explained this with the help of following formula:

$V_r = n/m * (P_{ex} – P_{of})$ Where

V_r = Value of Rights

n = Number of rights offered

m = Number of original shares held

P_{ex} = Ex-right price

P_{of} = Rights offer price

1.8.3 The following issues while valuing the rights entitlements have to be addressed:

i) In case original shares on which the right entitlement accrues are not traded on the Stock Exchange, right entitlement should be valued at zero.

ii) When rights are not treated pari passu with the existing shares such as, restrictions with regard to dividend etc., suitable adjustment should be made by way of a discount to the value of rights at the last dividend announced rate.

iii) Where right entitlements are not subscribed to but are to be renounced, and where renouncements are being traded, the right entitlements have to be valued at traded renunciation value.

iv) Where right entitlements are not traded and it is decided not to subscribe the rights, the right entitlements have to be valued at zero.

v) In case the Rights Offer Price is greater than the ex-rights price, the value of the rights share is to be taken as zero.

1.9 VALUATION OF PARTLY PAID-UP EQUITY SHARES

Partly paid-up equity shares shall be valued at Underlying Equity price as reduced by the balance call money payable.

2. VALUATION OF GOVERNMENT SECURITIES:

Non-Traded State Government Securities:

If Govt. secs is not traded or the volume of trade is below Rs.5 crore it will be considered as non-traded or thinly traded State Government securities. Also if the latest traded price available is more than seven days before the valuation date it will be considered as non-traded.

Non-traded/Thinly traded State Government securities will be valued based on the current YTM of Central Government securities with similar maturity period and after adjusting for necessary mark up for such securities. The valuation committee will review the mark up at regular interval for any revision in it. Mark – up to be reviewed at least once in 7 days.

The mark up recommended to be done till the next revision to the YTM of similar paper of Central Government securities is as follows:

States	Indicative yield spreads
Gujarat & Madhya Pradesh	+25 bps over corresponding GOI-Sec
Arunachal Pradesh, Manipur, Mizoram, Nagaland, Sikkim & Tripura	+30 bps over corresponding GOI-Sec

3. VALUATION OF NON TRADED DEBT SECURITIES OTHER THAN GOVERNMENT SECURITIES

Debt papers valuation is broadly classified under two categories:

a) More than 30 days to Maturity

b) Less than or equal to 30 days to Maturity.

3.1 VALUATION OF NON-TRADED DEBT AND MONEY MARKET INSTRUMENTS WITH RESIDUAL MATURITY OF UPTO 30 DAYS.

All Money market and Debt securities maturing up to 30 days are to be valued by amortization on a straight-line basis to maturity from cost or last valuation price, whichever is more recent, provided the amortized price is reflective of fair value by comparing it to the reference price.

The amortized price may be used for valuation as long as it is within ±0.025% of the reference price (Computed based on CRISIL/ICRA matrices plus applicable Spreads).

In case the variance exceeds ±0.025%, the valuation shall be adjusted to bring it within the ±0.025% band. No further reference need be made to industry traded prices for valuing instruments maturing up to 30 days, as the same are factored in by rating agency while arriving at reference price. Irrespective of amortization, a change in the credit rating or credit profile of the issuer would require a re-evaluation of the appropriateness of the spread.

In case of self-trade with minimum Face Value of 5 Crores, such security may be uniformly valued across all schemes at that self-traded price/yield.

3.2 VALUATION OF NON-TRADED DEBT AND MONEY MARKET INSTRUMENTS WITH RESIDUAL MATURITY OF > 30 DAYS.

(As per SEBI Circular No SEBI/IMD/CIR No.16/ 193388/2010 and gazette notification dated February 21, 2012)

Papers covered under category (a) (>30 days to maturity) are marked to market on daily basis.
The designated agencies (presently, CRISIL and ICRA) provide daily Valuations for the entire spectrum of Debt Securities with residual Maturity exceeding 30 days.

For new securities issued [primary segment & such securities which do not form part of the universe of the Scrip Level Valuation provided by the designated agencies (presently, CRISIL and ICRA)], the valuation will be done on traded yield for CPs, CDs & ZCBs and on traded prices for Bonds till such time the valuation is provided by the said agencies.

Criteria for Identification of Similar Securities

SEBI vide the gazette notification dated February 21, 2012 has mandated that in order to have fairness in the valuation of debt and money market securities, the asset management company shall take in to consideration prices of trades of same security or similar security reported at all available public platform. These include FIMMDA /NSEWDM/BSE or any other public platform available later.

There is no clear definition of "similar security" outlined by SEBI. Hence, it is at the discretion of the AMC to define similar security to be used for valuation. Out of the securities traded in market lot, as per the public platform information, security may be considered as similar security if it meets all the following criteria:

- **i.** The security is in the same class e.g. CP, CD, Bonds, etc.
- **ii.** Similar security from a different issuer within the same category and similar credit rating, with maturity date within ± 5 days of maturity date of security OR Security belongs to the same Issuer and is available in marketable lot, with a deviation of maturity date of ± 5 days. Suitable rationale will be kept on records.
- **iii.** Security belongs to the same category i.e. NBFC, Real Estate, PSU Bank, Private Bank or Financial Institution, or others.
- **iv.** Security has same rating for the short end as well as long end. For e.g. while deciding the similar CP, consider CP short term rating as well as long term rating of that Company and compare the same.
- **v.** For comparison amongst aforesaid criteria, first preference would be given for the security of the same issuer, if available on marketable lot.
- **vi.** Ignore inter scheme trades reported on public platform till the inter scheme trade pricing is stabilized. No such data available as of today

3.3 GUIDELINES FOR VALUATION OF INTER SCHEME TRADES OF DEBT AND MONEY MARKET SECURITIES#

- i. In case of transfer of securities between Schemes, to ensure fair treatment of investors in both schemes, such transfers would be done at the Weighted average price or yield at which it is traded up to the time of transfer of such security; subject to the market trade criteria of minimum 3 trades aggregating to Rs.100 Crores.
- ii. If no such Trades, then at previous day's valuation Price.

3.4 VALUATION OF GOVERNMENT SECURITIES AND TREASURY BILLS (RESIDUAL MATURITY MORE THAN 30 DAYS)

The same shall be valued at average of the prices provided by approved agencies by AMFI (currently CRISIL and ICRA).

3.5 Valuation of money market and debt securities which are rated below investment grade:

In order to have uniformity and consistency across the Mutual Fund industry on valuation of money market and debt securities rated below investment grade, the following has been decided:

All money market and debt securities which are rated below investment grade shall be valued at the price provided by valuation agencies.

Till such time the valuation agencies compute the valuation of money market and debt securities classified as below investment grade, such securities shall be valued on the basis of indicative haircuts provided by these agencies. These indicative haircuts shall be applied on the date of credit event i.e. migration of the security to sub-investment grade and shall continue till the valuation agencies compute the valuation price of such securities. Further, these haircuts shall be updated and refined, as and when there is availability of material information which impacts the haircuts.

Consideration of traded price for valuation:
In case of trades during the interim period between date of credit event and receipt of valuation price from valuation agencies, AMCs shall consider such traded price for valuation if it is lower than the price post standard haircut. The said traded price shall be considered for valuation till the valuation price is determined by the valuation agencies.

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.

3.6 PROVISIONING IN CASE OF DEEP DISCOUNT BONDS

Deep discount bonds can be classified as NPAs if any of the following conditions are satisfied:

- If the rating of the Bond comes down to grade "BB" or below.
- If the company is defaulting in their commitments in respect of other liabilities, if available.
- If net worth is fully eroded.

Provisioning to be made as follows:

- 10% of the book value of the asset should be provided for after 3 months, from the date of classification of the asset as NPA.
- Another 20% of the book value of the asset should be provided for after 6 months, from the date of classification of the asset as NPA.
- Another 20% of the book value of the asset should be provided for after 9 months, from the date of classification of the asset as NPA.
- Another 25% of the book value of the asset should be provided for after 12 months, from the date of classification of the asset as NPA.
- The balance 25% of the book value of the asset should be provided for after 15 months, from the date of classification of the asset as NPA.

(In case of security is held by the close-ended scheme and if the period i.e.18 months past due date of interest, falls beyond the redemption date of the scheme, the aforesaid time phases of provisioning should be proportionately shortened to at least coincide with the redemption date of the scheme.)

3.7 VALUATION OF CONVERTIBLE DEBENTURES

As per Eighth Schedule of SEBI (Mutual Fund) Regulations method of valuation of convertible debentures is prescribed.

Non-convertible and convertible components are valued separately.

A. The non-convertible component shall be valued on the same basis as would be applicable to a non-convertible debt instrument mentioned above

B. The convertible component to be valued as follows:

i) Ascertain

- The number of shares to be received after conversion.
- Whether the shares would be pari passu for dividend on conversion.
- The rate of last declared dividend.
- Whether the shares are presently traded or non traded/thinly traded.
- Market rate of shares on the date of valuation

ii) In case the shares to be received are, on the date of valuation, are thinly traded / non-traded, these shares to be received on conversion are to be valued as thinly traded / non-traded shares as stated at para 1.2 above.

iii) In case the shares to be received on conversion are not non-traded or thinly traded on the date of valuation and would be traded pari passu for dividend on conversion:

a) Number of shares to be received on conversion, per convertible debenture, multiplied by the present market rate

b) Determine the discount for non-tradability of the shares on the date of valuation.

(This discount should be determined in advance and to be used uniformly for all the convertible securities. Rate of discount should be documented and approved by the Board of AMC)

Value = (a)*market rate [1-(b)]

iv) In case the shares to be received on conversion are not non-traded or thinly traded on the date of valuation but would not be traded pari passu for dividend on conversion:

a) Number of shares to be received on conversion, per convertible debenture, multiplied by the present market rate

b) Arrive at the market value of the shares on the date of valuation by reducing the amount of last paid dividend.

c) Determine the discount for non-tradability of the shares on the date of valuation.

(This discount should be determined in advance and to be used uniformly for all the convertible securities. Rate of discount should be documented and approved by the Board of AMC)

Value = (a)*{b- [1- (c)]}

v) In case of optionally convertible debentures, two values must be determined assuming both, exercising the option and not exercising the option.

- If the option rests with the issuer, the lower of the two values shall be taken as the valuation of the optionally convertible portion, and;
- If the option rests with the investor, the higher of the two values shall be taken.
- Any security held by a fund has to be valued according to the prevalent valuation guidelines and norms for that category of security irrespective of mode of acquisition of such security. In view of this, debentures received on account corporate action should also be valued as per the valuation methodology prescribed by SEBI. **(AMFI circular dated June 17, 2011)**

3.8 FLOATING RATE SECURITIZED DEBT (FRN PTCs):

Valuation of such instruments is not covered by Crisil Bond Valuer. Such papers are generally linked to Mibor and have Cap and Floor rates with various compounding options and periodic repayment structure. Generally issuer also gives cash flow attached to the paper at Cap rate.

Valuation of such papers shall be done by taking cash flow at cap rate as base and shall be valued liked normal PTC.

In case any other type of FRN PTC structure, valuation methodology shall be provided by AMC on case to case basis.

4. REPO INSTRUMENTS:

Eighth Schedule to SEBI (Mutual Fund) Regulation has spelt out briefly the methodology for valuation of Repo Instruments. Mirae Asset Mutual Fund value Reverse Repo (Purchase and sale back) in line with this regulation as follows:

4.1 REVERSE REPURCHASE TRANSACTION:

A Reverse Repurchase Transaction is an agreement under which on payment of a purchase price, the fund receives (purchases) securities from a seller who agrees to repurchase them at a specified time at a specified price. A repurchase agreement is similar in effect to a loan by the fund to the seller collateralised by the securities. The Mutual Fund does not record the purchase of securities received but records the repo transactions as if it were a loan. Repo instruments have to be valued at the resale price after deduction of applicable interest rate up to the date of resale. To put it differently, it is at the net consideration paid i.e., loan given plus interest accrued every day. The difference between repurchase and sale prices is accounted as interest income.

4.2 REPURCHASE TRANSACTION:

In future if such transaction is entered into it would be valued as follows:

A Repurchase Transaction is an agreement, which provides for the Mutual Fund to transfer (sale) security to a buyer for cash. The Fund does not record sale of security and it agrees to later repay cash plus interest in exchange for return (repurchase) of the same securities. The transaction is thus similar in effect to a borrowing by the Mutual Fund collateralised by the security.

Presently repo can be carried out by specified Mutual Funds only with Reserve Bank of India and not with any other party. While valuing such instruments adjustment must be made for the difference between repurchase price and the value of instrument. Repurchase price has to be arrived at after deducting applicable interest rate up to the date of repurchase. However, it should be noted that if repurchase price exceeds the value, depreciation must be provided for and if repurchase price is lower than the value, credit must be taken for appreciation. In effect for the purpose of valuation the difference between liability towards repayment of borrowing (as increased by interest payable daily and the market price of such security in the portfolio of the Fund is considered as appreciation or depreciation accounted separately). The difference between sale and repurchase prices is accounted as interest expense.

To elaborate further, appreciation/depreciation in the instruments sold on `repo' basis is as follows:

i) If the repurchase price, after deduction of applicable interest up to the date of repurchase from the valuation date, exceeds the market value as on the valuation date depreciation must be considered for valuation.

ii) If the repurchase price, after deduction of applicable interest up to the date of repurchase from the valuation date, is lower than the market value as on the valuation date appreciation must be consider for valuation.

5 VALUATION SUMMARY:

Security Type	**Valuation Policy**
Debt and Money Market Instruments:	
Traded Instruments: Securities with residual maturity <= 30 days	All Money market and Debt securities maturing up to 30 days are to be valued by amortization on a straight-line basis to maturity from cost or last valuation price, whichever is more recent, provided the amortized price is reflective of fair value by comparing it to the reference price. The amortized price may be used for valuation as long as it is within ±0.025% of the reference price (Computed based on CRISIL/ICRA matrices plus applicable Spreads). In case the variance exceeds ±0.025%, the valuation shall be adjusted to bring it within the ±0.025% band. No further reference need be made to industry traded prices for valuing

Security Type	Valuation Policy
Debt and Money Market Instruments:	
	instruments maturing up to 30 days, as the same are factored in by rating agency while arriving at reference price. Irrespective of amortization, a change in the credit rating or credit profile of the issuer would require a re-evaluation of the appropriateness of the spread. In case of self-trade with minimum Face Value of 5 Crores, such security may be uniformly valued across all schemes at that self-traded price/yield.
Non Traded Instruments: Securities with residual maturity <= 30 days	All Money market and Debt securities maturing up to 30 days are to be valued by amortization on a straight-line basis to maturity from cost or last valuation price, whichever is more recent, provided the amortized price is reflective of fair value by comparing it to the reference price. The amortized price may be used for valuation as long as it is within ±0.025% of the reference price (Computed based on CRISIL/ICRA matrices plus applicable Spreads). In case the variance exceeds ±0.025%, the valuation shall be adjusted to bring it within the ±0.025% band. No further reference need be made to industry traded prices for valuing instruments maturing up to 30 days, as the same are factored in by rating agency while arriving at reference price. Irrespective of amortization, a change in the credit rating or credit profile of the issuer would require a re-evaluation of the appropriateness of the spread. In case of self-trade with minimum Face Value of 5 Crores, such security may be uniformly valued across all schemes at that self-traded price/yield.
Securities (Traded/Non Traded) with residual maturity > 30 days	The valuation of Debt Securities with residual Maturity more than 30 days; both traded and Non Traded; shall be valued as the Average of the Valuations for Securities as provided by CRISIL and ICRA at the end of Every Business Day. Scrip level Valuations will be provided by the agencies CRISIL & ICRA factoring the Issuer Ratings, instrument duration, demand / supply, relevant market yields and spreads corresponding to the asset class and sector of the scrip to be valued.
Valuation of Debt securities ((Traded/Non Traded) with residual maturity > 30 days) not	Debt Securities bought and not forming part of the Scrip level universe shall be valued on traded yield for CPs, CDs & ZCBs and on traded price for Bonds.

Security Type	Valuation Policy
Debt and Money Market Instruments:	
falling in the scrip level Universe	
Other Fixed Income Instruments:	
Government Securities	Government Securities & State Govt. Securities of any tenor will be valued at the average of the prices provided by approved agencies by AMFI (currently CRISIL and ICRA).
Corporate Bonds	Valuation prices provided by the Bond Valuation tool of the agencies as approved by AMFI for individual securities
Treasury Bills with residual maturity less than or equal to 30 days	For T-Bills with residual maturity up to 30 days, the amortized price may be used for valuation as long as it is within ±2.5 basis points (bps) (±0.025%) of the reference price. In case the variance exceeds ±2.5 bps of the reference price, the valuation shall be adjusted to bring it within the ±2.5 bps band.
Treasury Bills with residual maturity more than 30 days	Treasury bills having a residual maturity greater than 30 days will be valued at the average of the prices provided by approved agencies by AMFI (currently CRISIL and ICRA).
Interest Rate SWAP/ Forward Rate Agreements	All SWAP/ FRA's will be valued at net present value after discounting the future cash flows. Future cash flows for SWAP/FRA contract will be computed daily based as per terms of contract and discounted by suitable OIS rates available on RBI/Reuters or any other provider as approved by Valuation Committee.
Overnight Money (CBLO/Reverse Repo/CROMS)	Overnight money deployed will be valued at cost plus the accrual/amortization.
Fixed Deposit	Fixed deposits will be valued at cost.

SECTION III

RELEVANT CIRCULARS REGARDING VALUATION

SEBI Circular No: MFD/CIR/011/091/2000 dated February 1, 2000
Guidelines for Participation by Mutual Funds in Trading in Derivative Products

According to recently amended Regulation 45 of the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, mutual funds can enter into derivative transactions for the purpose of hedging and portfolio balancing in accordance with Guidelines issued by SEBI.

We are enclosing detailed guidelines in this regard, which are being issued in accordance with the provisions of Regulation 77.

Guidelines for participation by Mutual Funds in trading in Derivative Products

The Mutual Funds shall be required to adhere to the following guidelines for trading in derivatives:

1. Purpose of investment:

   i. Trading in derivatives by mutual funds shall be restricted to hedging and portfolio balancing purposes.
   ii. The mutual funds shall be required to fully cover their positions in the derivatives market by holding underlying securities / cash or cash equivalents /

option and / or obligation for acquiring underlying assets to honour the obligations contracted in the derivatives market.

iii. Separate records shall be maintained for holding the cash and cash equivalents / securities for this purpose.

iv. The securities held shall be marked to market by the AMC to ensure full coverage of investments made in derivative products at all time.

2. Disclosure requirements: The following disclosure requirements shall be mandatory for mutual fund schemes proposing to invest in derivative products:

i. The intention to trade in derivative products shall be disclosed in the offer documents.

ii. The risks and returns ensuing from trading in derivatives shall be explained by means of a simple quantitative example.

iii. The appropriate risk factors attendant upon such investments shall be disclosed in a comprehensible and simple manner.

iv. The offer document of a scheme envisaging derivative trading shall state unambiguously and clearly the losses that may be suffered by the investors as a consequence of such investments.

v. The mutual funds shall disclose as to how trading in derivatives will help in the furtherance of the investment objectives of the scheme.

vi. The mutual funds shall lay down exposure-limits for themselves and disclose the same in the scheme offer-document.

3. Valuation: Regarding valuation of derivative products:

i. The traded derivatives shall be valued at market price in conformity with the stipulations of sub clauses (i) to (v) of clause 1 of the Eighth Schedule to the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996.

ii. The valuation of untraded derivatives shall be done in accordance with the valuation method for untraded investments prescribed in sub clauses (i) and (ii) of clause 2 of the Eighth Schedule to the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996.

4. Reporting requirements: The AMC shall cover the following aspects in their reports to trustees periodically, as provided for in the Regulations:

i. Transactions in derivatives, both in volume and value terms.

ii. Market value of cash or cash equivalents / securities held to cover the exposure.
iii. Any breach of the exposure limit laid down in the scheme offer document.
iv. Short-fall, if any, in the assets covering investment in derivative products and the manner of bridging it.
v. The Trustees shall offer their comments on the above aspects in the report filed with SEBI under sub regulation (23) (a) of regulation 18 of Securities and Exchange Board of India (Mutual Funds) Regulations, 1996.

5. Existing schemes: In case the offer document of an existing scheme does not provide for trading in derivatives, the scheme, if it so desires, may trade in derivatives in accordance with these guidelines, provided that:

i. It obtains approval from the trustees.
ii. Trustees shall take reasonable steps to ensure that the asset management company possesses adequate expertise and infrastructure for derivative trading.

It informs the unit-holders of its intention to trade in derivatives and making all disclosures as mentioned earlier in the guidelines.

Circular No.: MFD/CIR/ 8 / 92 / 2000 dated September 18, 2000
Guidelines For Valuation of Securities for Mutual Funds

Mutual funds shall categorise the securities according to the following norms:

1. Traded Securities:

When a security (other than Government Securities) is not traded on any stock exchange on a particular valuation day, the value at which it was traded on the selected 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 thirty days prior to valuation date.

2. Thinly Traded Securities:

(i) Thinly Traded Equity/Equity Related Securities:

When trading in an equity/equity related security (such as convertible debentures, equity warrants, etc.) in a month is less than Rs. 5 lacs or the total volume is less than 50,000 shares, it shall be considered as a thinly traded security and valued accordingly.
Where a stock exchange identifies the "thinly traded" securities by applying the above parameters for the preceding calendar month and publishes/provides the required information along with the daily quotations, the same can be used by the mutual funds.

If the share is not listed on the stock exchanges which provide such information, then it will be obligatory on the part of the mutual fund to make its own analysis in line with the above criteria to check whether such securities are thinly traded which would then be valued accordingly.

In case trading in an equity security is suspended upto 30 days, then the last traded price would be considered for valuation of that security. If an equity security is suspended for more than 30 days, then the Asset Management Company/Trustees will decide the valuation norms to be followed and such norms would be documented and recorded.

(ii) Thinly Traded Debt Securities:

A debt security (other than Government Securities) that has a trading volume of less than Rs. 5 crores in the previous calendar month shall be considered as a thinly traded security based upon information provided by the relevant stock exchange on the volume of debt securities traded.
A thinly traded debt security as defined above would be valued as per the norms set for non-traded debt security.

3. Non Traded Securities:
When a security (other than Government Securities) is not traded on any stock exchange for a period of thirty days prior to the valuation date (instead of the existing provision of 60 days), the scrip must be treated as a ‘non traded’ security.

VALUATION OF NON-TRADED / THINLY TRADED SECURITIES
Non traded/ thinly traded securities shall be valued "in good faith" by the asset management company on the basis of the valuation principles laid down below:

(i) Non-traded / thinly traded equity securities:

(a) Based on the latest available Balance Sheet, net worth shall be calculated as follows:

(b) Net Worth per share = [share capital+ reserves (excluding revaluation reserves) – Misc. expenditure and Debit Balance in P&L A/c] Divided by No. of Paid up Shares.

(c) Average capitalisation rate (P/E ratio) for the industry based upon either BSE or NSE data (which should be followed consistently and changes, if any noted with proper justification thereof) shall be taken and discounted by 75% i.e. only 25% of the Industry average P/E shall be taken as capitalisation rate (P/E ratio). Earnings per share of the latest audited annual accounts will be considered for this purpose.

(d) 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% for ill-liquidity so as to arrive at the fair value per share.

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

(f) 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.

(g) In case an individual security accounts for more than 5% of the total assets of the scheme, an independent valuer shall be appointed for the valuation of the said security.

(ii)(a) Non Traded /Thinly Traded Debt Securities of Upto 182 Days to Maturity:

As the money market securities are valued on the basis of amortization (cost plus accrued interest till the beginning of the day plus the difference between the redemption value and the cost spread uniformly over the remaining maturity period of the instruments) the same process should be adopted for non-traded debt securities with residual maturity of upto 182 days, in the absence of any other standard benchmarks in the market. All other non traded Non Government debt instruments should be valued using the method suggested in (ii)(b) hereof.

(ii)(b) Non Traded/ Thinly Traded Debt Securities of Over 182 Days to Maturity:

For the purpose of valuation, all Non Traded Debt Securities would be classified into "Investment grade" and "Non Investment grade" securities based on their credit ratings. The non-investment grade securities would further be classified as "Performing" and "Non Performing" assets

All Non Government investment grade debt securities, classified as not traded, shall be valued on yield to maturity basis as described below.

All Non Government non investment grade performing debt securities would be valued at a discount of 25% to the face value.

All Non Government non investment grade non performing debt securities would be valued based on the provisioning norms.

The approach in valuation of non traded debt securities is based on the concept of using spreads over the benchmark rate to arrive at the yields for pricing the non traded security.

The Yields for pricing the non traded debt security would be arrived at using the process as defined below.

Step A
A Risk Free Benchmark Yield is built using the government securities (GOI Sec) as the base. GOI Secs are used as the benchmarks as they are traded regularly; free of credit risk; and traded across different maturity spectrums every week.

Step B
A Matrix of spreads(based on the credit risk) are built for marking up the benchmark yields. The matrix is built based on traded corporate paper on the wholesale debt segment of an appropriate stock exchange and the primary market issuances. The matrix is restricted only to investment grade corporate paper.

Step C
The yields as calculated above are Marked-up/Marked-down for ill-liquidity risk.

Step D
The Yields so arrived are used to price the portfolio

METHODOLOGY

A. Construction of Risk Free Benchmark

Using Government of India dated securities; the Benchmark shall be constructed as below:

Government of India Dated securities will be grouped into the following duration buckets viz., 0.5-1 years, 1-2 years, 2-3 years, 3-4 years, 4-5 years, 5-6 years and 6 years and the volume weighted yield would be computed for each bucket. Accordingly, there will be a benchmark YTM for each duration bucket.

The benchmark as calculated above will be set weekly, and in the event of any change in the Reserve Bank of India (RBI) policies affecting interest rates during the week, the benchmark will be reset to reflect any change in the market conditions.

Note: The concept of duration over tenor has been chosen in order to capture the reinvestment risk. It is intended to gradually move towards a methodology that incorporates the continuous curve approach for valuation of such securities. However, in view of the current lack of liquidity in the corporate bond markets, a continuous curve approach to valuation would be necessarily based on limited data points, and this would result in out of line valuations. As an interim methodology therefore it is proposed that the Duration Bucket approach be adopted and continuously tracked in order to fine tune the duration buckets on a periodic basis. Over the next few years it is expected that with the deepening of the secondary market trading, it would be possible to make a gradual move from the Duration Bucket approach towards a continuous curve approach.

B. Building a Matrix of Spreads for Marking-up the Benchmark Yield

Mark up for credit risk over the risk free benchmark YTM as calculated in step A, will be determined using the trades of corporate debentures/bonds of different ratings. All trades on appropriate stock exchange during the fortnight prior to the benchmark date will be used in building the corporate YTM and spread matrices. Initially these matrices will be built only for corporate securities of investment grade. The matrices are dynamic and the spreads will be computed every week. The matrix will be built for all duration buckets for which the benchmark GOI matrix is built to effectively link the corporate matrix with the GOI securities matrix. Accordingly:

All traded paper (with minimum traded value of Rs. 1 crore) will be classified by their ratings and grouped into 7 duration buckets; for rated securities, the most conservative publicly available rating will be used;

For each rating category, average volume weighted yield will be obtained both from trades on the appropriate stock exchange and from the primary market issuances.

Where there are no secondary trades on the appropriate stock exchange in a particular rating category and no primary market issuances during the fortnight under consideration, then trades on appropriate stock exchange during the 30 day period prior to the benchmark date will be considered for computing the average YTM for such rating category;

If the matrix cannot be populated using any or all of the above steps, then credit spreads from trades on appropriate stock exchange of the relevant rating category over the AAA trades will be used to populate the matrix;
In each rating category, all outliers will be removed for smoothening the YTM matrix;

Spreads will be obtained by deducting the YTM in each duration category from the respective YTM of the GOI securities;

In the event of lack of trades in the secondary market and the primary market the gaps in the matrix would be filled by extrapolation. If the spreads cannot be extrapolated for the reason of practicality, the gaps in the matrix will be filled by carrying the spreads from the last matrix.

C. Mark-up/Mark-down Yield:

The Yields calculated would be marked-up/marked –down to account for the ill-liquidity risk, promoter background, finance company risk and the issuer class risk.

As the level of ill-liquidity risk would be higher for non rated securities the marking process for rated and non rated securities would be differentiated as follows

C(I) Adjustments for Securities rated by external rating agencies:

The Yields so derived out of the above methodology could be adjusted to account for risk mentioned above.

A Discretionary discount/premium of upto +/-50 Basis Points for securities having a duration of upto 2 years and upto +/- 25 Basis Points for securities having duration higher than 2 years will be permitted to be provided for the above mentioned types of risks. The rationale for the above discount structure is to take cognizance of the differential interest rate risk of the securities. This structure will be reviewed periodically.

C (II) Adjustments for Internally Rated Securities

To value an un-rated security, the fund manager has to assign an internal credit rating, which will be used for valuation. Since un-rated instruments tend to be more illiquid than rated securities, the yields would be marked up by adding +50 basis point for securities having a duration of upto two years and +25 basis point for securities having duration of higher than two years to account for the illiquidity risk.

Valuation of securities with Put/Call Options

The option embedded securities would be valued as follows:

Securities with call option:

The securities with call option shall be valued 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.

Securities with Put option:

The securities with put option shall be valued 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 instruments.

Securities with both Put and Call option on the same day:
The securities with both Put and Call option on the same day would be deemed to mature on the Put/Call day and would be valued accordingly.

AMFI circular (December 28, 2010)
Multiple Put/Call papers with variable premiums

The securities having Put and Call Options on the same day but at different prices would not be treated as maturity date of the instrument and would be valued at Put and Call dates. Lower of the best of Put and worst of Call would be taken as the price for valuation Securities with Call Option within 30 days and maturity beyond 30 days would be valued at two of the lower prices viz. Amortisation price (based on Call date) and Valuation price (as on maturity date).

(ii)(c) Government securities (not traded for more than 30 days or one which would qualify as a thinly traded security) will be valued at cost plus accrual and amortizing the discount or premium over the like of the security.

Illiquid Securities:

(a) Aggregate value of "illiquid securities" of scheme, which are defined as non-traded, thinly traded and unlisted equity shares, shall not exceed 15% of the total assets of the scheme and any illiquid securities held above 15% of the total assets shall be assigned zero value.

Provided that in case any scheme has illiquid securities in excess of 15% of total assets as on September 30, 2000 then such a scheme shall within a period of two years bring down the ratio of illiquid securities within the prescribed limit of 15% in the following time frame:

(i) All the illiquid securities above 20% of total assets of the scheme shall be assigned zero value on September 30, 2001.

(ii) All the illiquid securities above 15% of total assets of the scheme shall be assigned zero value on September 30, 2002.

(b) All funds shall disclose as on March 31 and September 30 the scheme-wise total illiquid securities in value and percentage of the net assets while making disclosures of half yearly portfolios to the unit holders. In the list of investments, an asterisk mark shall also be given against all such investments, which are recognised as illiquid securities.

(c) Mutual Funds shall not be allowed to transfer illiquid securities among their schemes w.e.f. October 1, 2000.

(d) In respect of closed ended funds, for the purposes of valuation of illiquid securities, the limits of 15% and 20% applicable to open-ended funds should be increased to 20% and 25% respectively.

(e) Where a scheme has illiquid securities as at September 30, 2001 not exceeding 15% in the case of an open-ended fund and 20% in the case of closed fund, the concessions of giving time period for reducing the illiquid security to the prescribed limits would not be applicable and at all time the excess over 15% or 20% shall be assigned nil value.

Guidelines For Identification and Provisioning for Non Performing Assets (Debt Securities) For Mutual Funds:

(A) Definition of a Non Performing Asset (NPA)

An 'asset' shall be classified as non performing, if the interest and/or principal amount have not been received or remained outstanding for one quarter from the day such income / instalment has fallen due.

(B) Effective date for classification and provisioning of NPAs:

The definition of NPA may be applied after a quarter past due date of the interest. For e.g. if the due date for interest is 30.06.2000, it will be classified as NPA from 01.10.2000.

(C) Treatment of income accrued on the NPA and further accruals

After the expiry of the 1st quarter from the date the income has fallen due, there will be no further interest accrual on the asset i.e. if the due date for interest falls on 30.06.2000 and if the interest is not received, accrual will continue till 30.09.2000 after which there will be no further accrual of income. In short, taking the above example, from the beginning of the 2nd quarter there will be no further accrual on income.

On classification of the asset as NPA from a quarter past due date of interest, all interest accrued and recognized in the books of accounts of the Fund till the date, should be provided for. For e.g if interest income falls due on 30.06.2000, accrual will continue till 30.09.2000 even if the income as on 30.06.2000 has not been received. Further, no accrual will be done from 01.10.2000 onwards. Full provision will also be made for interest accrued and outstanding as on 30.06.2000.

(D) Provision for NPAs – Debt Securities.

Both secured and unsecured investments once they are recognized as NPAs call for provisioning in the same manner and where these are related to close ended scheme the phasing would be such that to ensure full provisioning prior to the closure of the scheme or the scheduled phasing which ever is earlier.

The value of the asset must be provided in the following manner or earlier at the discretion of the fund. Fund will not have discretion to extend the period of provisioning. The provisioning against the principal amount or instalments should be made at the following rates irrespective of whether the principal is due for repayment or not.

i) 10% of the book value of the asset should be provided for after 6 months past due date of interest i.e. 3 months form the date of classification of the asset as NPA.
ii) 20% of the book value of the asset should be provided for after 9 months past due date of interest i.e. 6 months from the date of classification of the asset as NPA.
iii) Another 20% of the book value of the assets should be provided for after 12 months past due date of interest i.e. 9 months form the date of classification of the asset as NPA.
iv) Another 25% of the book value of the assets should be provided for after 15 months past due date of interest i.e. 12 months from the date of classification of the asset as NPA.
v) The balance 25% of the book value of the asset should be provided for after 18 months past due date of the interest i.e. 15 months form the date of classification of the assets as NPA.
vi) Book value for the purpose of provisioning for NPAs shall be taken as a value determined as per the prescribed valuation method.

This can be explained by an illustration:

Let us consider that interest income is due on a half yearly basis and the due date falls on 30.06.2000 and the interest is not received till 1st quarter after due date i.e. 30.09.2000. This provisioning will be done in following phased manner:

10% provision	01.01.2001	6 months past due date of interest i.e. 3 months form the date of classification of asset as NPA (01.10.2000)
20% provision	01.04.2001	
20% provision	01.07.2001	
25% provision	01.10.2001	
25% provision	01.01.2002	

Thus, 1 1/2; years past the due date of income or 1 1/4; year from the date of classification of the 'asset' as an NPA, the 'asset' will be fully provided for. If any instalment is fallen due, during the period of interest default, the amount of provision should be instalment amount or above provision amount, whichever is higher.

(E) Reclassification of assets:

Upon reclassification of assets as 'performing assets':

1. In case a company has fully cleared all the arrears of interest, the interest provisions can be written back in full.
2. The asset will be reclassified as performing on clearance of all interest arrears and if the debt is regularly serviced over the next two quarters.
3. In case the company has fully cleared all the arrears of interest, the interest not credited on accrual basis would be credited at the time of receipt.
4. The provision made for the principal amount can be written back in the following manner:

   100% of the asset provided for in the books will be written back at the end of the 2nd quarter where the provision of principal was made due to the interest defaults only.

   50% of the asset provided for in the books will be written back at the end of the 2nd quarter and 25% after every subsequent quarter where both instalments and interest were in default earlier.

5. An asset is reclassified as 'standard asset' only when both overdue interest and overdue instalments are paid in full and there is satisfactory performance for a subsequent period of 6 months.

(F) Receipt of past dues:

When the fund has received income/principal amount after their classifications as NPAs ;
For the next 2 quarters, income should be recognized on cash basis and thereafter on accrual basis. The asset will be continued to be classified as NPA for these two quarters.
During this period of two quarters although the asset is classified as NPA no provision needs to be made for the principal if the same is not due and outstanding
If part payment is received towards principal, the asset continues to be classified as NPA and provisions are continued as per the norms set at (D) above. Any excess provision will be written back.

(G) Classification of Deep Discount Bonds as NPAs:

Investments in Deep Discount Bonds can be classified as NPAs, if any two of the following conditions are satisfied:
If the rating of the Bond comes down to grade 'BB' or below.
If the company is defaulting in their commitments in respect of other assets, if available.
Full Net worth erosion.
Provision should be made as per the norms set at (D) above as soon as the asset is classified as NPA.
Full provision can be made if the rating comes down to grade 'D'

(H) Reschedulement of an asset:
In case any company defaults either interest or principal amount and the fund has accepted a reschedulement of the schedule of payments, then the following practice may be adhered to:

(i) In case it is a first reschedulement and only interest is in default, the status of the asset namely, 'NPA' may be continued and existing provisions should not be written back. This practice should be continued for two quarters of regular servicing of the debt. Thereafter, this be classified as 'performing asset' and the interest provided may be written back.

(ii) If the reschedulement is done due to default in interest and principal amount, the asset should be continued as non-performing for a period of 4 quarters, even though the asset is continued to be serviced during these 4 quarters regularly. Thereafter, this can be classified as 'performing asset' and all the interest provided till such date should be written back.

(iii) If the reschedulement is done for a second/third time or thereafter, the characteristic of NPA should be continued for eight quarters of regular servicing of the debt. The provision should be written back only after it is reclassified as 'performing asset'.

(I) Disclosure in the Half Yearly Portfolio Reports

The mutual funds shall make scrip wise disclosures of NPAs on half yearly basis along with the half yearly portfolio disclosure.

The total amount of provisions made against the NPAs shall be disclosed in addition to the total quantum of NPAs and their proportion of the assets of the mutual fund scheme. In the list of investments an asterisk mark shall be given against such investments, which are recognized as NPAs. Where the date of redemption of an investment has lapsed, the amount not redeemed shall be shown as 'Sundry Debtors' and not investment provided that where an investment is redeemable by installments that will be shown as an investment until all installments have become overdue.

(J) Effective date for implementation / switchover to the current norms*:*

The above norms shall be implemented by all mutual funds including UTI from 01.10.2000.

Circular No.: MFD/CIR/14 /088 / 2001 dated March 28, 2001

Guidelines for Valuation of Securities

Thinly Traded Equity / Equity Related Securities:

The definition for Thinly Traded Equity / Equity Related Securities given in Section 2(i) of the Guidelines (Pg. 1) shall be replaced by the following definition:

"When trading in an equity/equity related security (such as convertible debentures, equity warrants, etc.) in a month is both less than Rs. 5 lacs and the total volume is less than 50,000 shares, it shall be considered as a thinly traded security and valued accordingly".

For example, if the volume of trade is 100,000 and value is Rs. 400,000, the share does not qualify as thinly traded. Also if the volume traded is 40,000, but the value of trades is Rs. 600,000, the share does not qualify as thinly traded.

Further it is clarified that in order to determine whether a security is thinly traded or not, the volumes traded in all recognised stock exchanges in India may be taken into account.

Thinly Traded Debt Security:

The definition for Thinly Traded Debt Security given in first paragraph of Section 2(ii) of the Guidelines (Pg. 1) shall be replaced by the following definition:

"A debt security (other than Government Securities) that has a trading volume of less than Rs. 15 crores for a period of thirty days prior to the valuation date shall be considered as a thinly traded security based upon information provided by the stock exchanges on the volume of trading of debt securities".

In order to determine whether a security is thinly traded or not the volumes traded in all recognised stock exchanges in India may be taken into account.

Non-Traded / Thinly Traded Equity/ Equity Related Securities:

For the sake of clarification, in sub-clause(g) of clause (i) of the Guidelines (Pg. 2), the following sentence is now added,

" To determine if a security accounts for more than 5% of the total assets of the scheme, it should be valued by the procedure above and the proportion which it bears to the total net assets of the scheme to which it belongs would be compared on the date of valuation".

Non Traded / Thinly Traded Debt Securities of upto 182 days to maturity

The valuation model given in clause (ii)(a) of the Guidelines (Pg. 2) shall be substituted by the following:

"As the money market securities are valued on the basis of amortization (cost plus accrued interest till the beginning of the day plus the difference between the redemption value and the cost spread uniformly over the remaining maturity period of the instruments) a similar process should be adopted for non-traded debt securities with residual maturity of upto 182 days, in the absence of any other standard benchmarks in the market. Debt securities purchased with residual maturity of upto 182 days are to be valued at cost (including accrued interest till the beginning of the day) plus the difference between the redemption value (inclusive of interest) and cost spread uniformly over the remaining maturity period of the instrument. In case of a debt security with maturity greater than 182 days at the time of purchase, the last valuation price plus accrued interest should be used instead of purchase cost. All other non traded Non Government debt instruments shall be valued using the method suggested in (ii)(b) hereof".

Government Securities:

The valuation method given in clause (ii)(c) of the Guidelines (Pg. 6) pertaining to valuation of government securities not traded for more than 30 days or one which would qualify as a thinly traded security is now deleted. Such securities shall be valued at yield to maturity based on the prevailing market rate, in accordance with item (cc) of Clause 2 of the Eighth Schedule of SEBI (Mutual Funds) Regulations, 1996.

Guidelines For Identification and Provisioning For Non Performing Assets (Debt Securities) For Mutual Funds)

Reclassification of assets

In sub-clause (4)of clause (E) of the Guidelines (Pg. 3), it is clarified that the words "2nd quarter" wherever appear, shall mean 2nd calendar quarter.

These guidelines effective immediately are being issued in accordance with the provisions of Regulation 77 of SEBI (Mutual Funds) Regulations, 1996.

Circular No.: MFD/CIR No.14/442/2002 dated February 20, 2002

Traded Securities:

The definition for traded securities given on page 1 of the circular dated September 18, 2000 shall be replaced by the following definition:

When a security (other than debt securities) is not traded on any stock exchange on a particular valuation day, the value at which it was traded on the selected stock exchange, as the case may be, on the earliest previous day may be used provided such date is not more than thirty days prior to valuation date.

When a debt security (other than Government Securities) is not traded on any stock exchange on any 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 fifteen days prior to valuation date.

When a debt security (other than Government Securities) is purchased by way of private placement, the value at which it was bought may be used for a period of fifteen days beginning from the date of purchase.

Thinly Traded Debt Security:

The definition of a thinly traded debt security given in pt. 2 (page 2) of circular dated March 28, 2001 shall be replaced by the following definition:

A debt security (other than Government Securities) shall be considered as a thinly traded security if on the valuation date, there are no individual trades in that security in marketable lots (currently Rs 5 crore) on the principal stock exchange or any other stock exchange.

Construction of Risk Free Benchmark:

The paragraph on Construction of Risk Free Benchmark given on page 4 of the circular dated September 18, 2000 for valuation of securities shall be replaced by the following paragraph:

GOI dated securities will be grouped into various duration buckets such as 0.5-1 years, 1-2 years, 2-3 years, 3-4 years, 4-5 years, 5-6 years and 6 years and the volume weighted yield would be computed for each bucket. These duration buckets may be changed to reflect the market value more closely by any agency suggested by AMFI giving benchmark yield/matrix of spreads over benchmark yield.

The benchmark as calculated above will be set at least weekly, and in the event of any significant movement in prices of Government Securities on account of any event impacting interest rates on any day such as a change in the Reserve Bank of India (RBI) policies, the benchmark will be reset to reflect any change in the market conditions.

Mark up/ Mark down yield

The discount adjustments provided for securities rated by external rating agencies and internally rated securities on page 5 [Clauses C(I) & C(II)] of the circular dated September 18, 2000, shall be revised as follows :

Category	Discretionary discount over benchmark yield in basis points
Rated Instruments with duration upto 2 years	Discretionary Discount of upto +100
Rated Instruments with duration over 2 years	Discretionary Discount of upto +75
Unrated Instruments with duration upto 2 years	Discretionary Discount of upto +50 over and above the mandatory Discount of +50
Unrated Instruments with duration over 2 years	Discretionary Discount upto +50 over and above the mandatory Discount of +25

Other contents of these clauses remain unchanged.

Application of Benchmark yield for valuation on the date of its release by any agency suggested by AMFI:

A new clause namely C (III) will appear after Clause C (II) [page 5] of the circular dated September 18, 2000.

The benchmark yield/matrix of spreads over benchmark yield obtained from any agency suggested by AMFI as a provider of benchmark yield/matrix of spreads over benchmark yield to mutual funds, must be applied for valuation of securities on the day on which the bench mark yield/matrix of spreads over benchmark yield is released by the aforesaid agency.

Valuation of Government Securities

For valuation of government securities, all the mutual funds are advised to use the prices for Government Securities released by an agency suggested by AMFI for the sake of uniformity in calculation of NAVs.

These guidelines effective immediately are being issued in accordance with the provisions of Regulation 77 of SEBI (Mutual Funds) Regulations, 1996.

Circular No.: MFD/CIR/03/526/2002 dated May 9, 2002

Investment in Unlisted Equity Shares:

With a view to bringing about uniformity in calculation of NAVs of mutual funds schemes, the following guidelines are being issued for valuation of unlisted equity shares in consultation with Association of Mutual Funds in India (AMFI). The guidelines also prescribe exercise of due diligence while making such investments and review of their performance so as to protect the interests of investors.

Methodology for Valuation

Unlisted equity shares of a company shall be valued "in good faith" on the basis of the valuation principles laid down below:

(a) Based on the latest available audited balance sheet, net worth shall be calculated as lower of (i) and (ii) below:

(i) Net worth per share = [share capital plus free reserves (excluding revaluation reserves) minus Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses] divided by Number of Paid up Shares.

(ii) After taking into account the outstanding warrants and options, Net worth per share shall again be calculated and shall be = [share capital plus consideration on exercise of Option/Warrants received/receivable by the Company plus free reserves(excluding revaluation reserves) minus Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses] divided by {Number of Paid up Shares plus Number of Shares that would be obtained on conversion/exercise of Outstanding Warrants and Options}

The lower of (i) and (ii) above shall be used for calculation of net worth per share and for further calculation in (c) below.

(b) Average capitalisation rate (P/E ratio) for the industry based upon either BSE or NSE data (which should be followed consistently and changes, if any, noted with proper justification thereof) shall be taken and discounted by 75% i.e. only 25% of the Industry average P/E shall be taken as capitalisation rate (P/E ratio). Earnings per share 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% for illiquidity so as to arrive at the fair value per share.

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

All calculations as aforesaid shall be based on audited accounts.

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.

If the net worth of the company is negative, the share would be marked down to zero.
In case the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalised earning.

In case an individual security accounts for more than 5% 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% of the total assets of the scheme, it should be valued in accordance with the procedure as mentioned above on the date of valuation.

At the discretion of the AMC and with the approval of the trustees, an unlisted equity share may be valued at a price lower than the value derived using the aforesaid methodology.

Due Diligence
The mutual funds shall not make investment in unlisted equity shares at a price higher than the price obtained by using the aforesaid methodology. However, it is clarified that this will not be applicable for investment made in the initial public offers of the companies (IPOs) or firm allotment in public issues where all the regulatory requirements and formalities pertaining to public issues have been complied with by the companies and where the mutual funds are required to pay just before the date of public issue.
The boards of AMCs and trustees of mutual funds shall lay down the parameters for investing in unlisted equity shares. They shall pay specific attention that due diligence was exercised while making such investments and shall review their performance in their periodical meetings as advised in SEBI Circular no. MFD/CIR/6/73/2000 dated July 27, 2000.
Reporting of Compliance
The AMCs and trustees shall offer their comments on the compliance of these guidelines in their quarterly and half-yearly reports filed with SEBI.
These guidelines effective immediately are being issued in accordance with the provisions of Regulation 77 of SEBI (Mutual Funds) Regulations, 1996.

Circular No. MFD/CIR.No 23 / 066 /2003 dated March 7, 2003

Investment Valuation Norms for Mutual Funds

As you are aware, Eighth Schedule to SEBI (Mutual Funds Regulations), 1996 lays down the parameters for valuation of securities. Further, vide circulars dated September 18, 2000, March 28, 2001 and February 20, 2002, SEBI has prescribed detailed guidelines for valuation of securities.

After considering the representation from AMFI, it has now been decided that all mutual funds shall provide transaction details of various types of debt securities like NCDs, Mibor linked floaters and CPs on daily basis in the prescribed format to the agency recommended by AMFI. Submission of data would help in daily matrix generation, would improve uniformity and accuracy of valuation in the mutual funds industry. The format for providing data is enclosed.

This circular effective immediately is issued under Regulation 77 of SEBI (Mutual Funds) Regulations, 1996.

Date Of Trxn	Coupon	Security Name	Security Type	Staggered Redemption/ Maturity Dates	Staggered Redemption / Maturity Values	Rating	Put/Call Option Dates	Put/Call Option Values	Int. Pay ment Dates	Vol. (in Rs. Crs)	Clean Price	YTM (Annua -lised)
			NCD									
			Mibor Linked									
			CP									

Circular No.SEBI/IMD/CIR No. 9/141601/08 dated October 18, 2008

<u>Valuation of Debt securities by Mutual Funds</u>

This is in partial modification of SEBI Circular No. MFD/CIR/8/92/2000 dated September 18, 2000 and MFD/CIR No. 14/442/2002 dated February 20, 2002, which, inter-alia, specified the discount adjustments for debt securities rated by external agencies for ill-liquidity risk, promoter background, finance company risk and issuer class risk.

It has been brought to notice of SEBI by AMFI and CRISIL that the current valuation methodology which allows the discretion of -50 basis points (bps) to +100 bps to account for the aforesaid risks is inadequate as debt securities of similar maturity and credit rating are being traded over wide range of yields. With a view to ensure that the value of debt securities reflects the current market scenario in calculation of net asset value, it has been decided to increase the discretion permitted.

Accordingly, the clauses C(I) and C(II) of the circular dated September 18, 2000 and clause 4 of the circular dated February 20, 2002 shall be revised as follows:

Category	**Current**		**Proposed**	
Rated instruments with	100 bps	50 bps	500 bps	150 bps

duration upto 2 years				
Rated instruments with duration over 2 years	75 bps	25 bps	400 bps	100 bps

In case of unrated debt securities:

Category	**Current**	**Proposed**
Unrated instruments with duration upto 2 years	Discretionary discount of upto +50 bps over and above mandatory discount of +50 bps	Discretionary discount of upto +450 bps over and above mandatory discount of +50 bps
Unrated instruments with duration over 2 years	Discretionary discount of upto +50 bps over and above mandatory discount of +25 bps	Discretionary discount of upto +375 bps over and above mandatory discount of +25 bps

Other contents of the aforesaid circulars remain the same. These guidelines shall come into effect immediately.

Circular No. SEBI / IMD / CIR No. 2/166256/ 2009 June 12, 2009

<u>Valuation of debt securities by Mutual Funds</u>

Please refer to SEBI Circulars No. MFD/CIR/8/92/2000 dated September 18, 2000, MFD/CIR No. 14/442/2002 dated February 20, 2002 and SEBI/IMD/CIR No. 9/08 dated October 18, 2008.

With a view to ensure that the value of debt securities reflects the current market scenario in calculation of net asset value, it has been decided that discretionary mark up and mark down shall be brought to the level as detailed in SEBI Circulars No. MFD/CIR/8/92/2000 dated September 18, 2000 and MFD/CIR No. 14/442/2002 dated February 20, 2002.

Accordingly, the discretionary mark up and mark down will be as under:

a. In case of rated debt securities

Category	**Current (as per Circular dated October 18, 2008)**		**Proposed**	
	+	**-**	**+**	**-**
Rated instruments with	500 bps	150 bps	100 bps	50 bps

duration upto 2 years				
Rated instruments with duration over 2 years	400 bps	100 bps	75 bps	25 bps

b. In case of unrated debt securities

Category	Current (as per Circular dated October 18,2008)	Proposed
Unrated instruments with duration upto 2 years	Discretionary discount of upto +450 bps over and above mandatory discount of +50 bps	Discretionary discount of upto +50 bps over and above mandatory discount of +50 bps
Unrated instruments with duration over 2 years	Discretionary discount of upto +375 bps over and above mandatory discount of +25 bps	Discretionary discount of upto +50 bps over and above mandatory discount of +25 bps

Further, it has been decided that

- For valuation of securities purchased after the issuance of circular, the discretionary mark up or down limit, as detailed above, should be applied.
- For cases where on the date of this circular, the increased discretionary mark up or down limit is being used, it should be brought back to the proposed levels as detailed above within a period of two months.
- Chief Executive Officer (whatever his designation may be) of the Asset Management Company shall give prior approval to the use of discretionary mark up or down limit.

This circular is issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, read with the provisions of Regulation 77 of the SEBI (Mutual Funds) Regulations, 1996, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

SEBI/IMD/CIR No.16/ 193388/2010 dated Feb 02, 2010 on valuation of Debt securities:-

All Mutual Funds/Asset Management Companies (AMCs)

Sub: Valuation of Debt and Money Market Instruments

1. Please refer to SEBI circular No. MFD/CIR/ 8 / 92 / 2000 dated September 18, 2000, MFD/CIR/14 /088 / 2001 dated March 28, 2001, MFD/CIR/ no 14 /442 / 2002 dated February 20, 2002 and MFD/CIR/23 /066 / 2003 dated March 7, 2003.

2. The valuation method of debt and money market instruments specified in the aforesaid circulars were discussed in the Advisory Committee of Mutual Funds. With a view to ensure that the value of money market and debt securities in the portfolio of mutual fund

schemes reflect the current market scenario, the current provisions regarding valuation of these securities need to be modified, as under:

I. Valuation of money market and debt securities with residual maturity of up to 91 days:

All money market and debt securities, including floating rate securities, with residual maturity of up to 30 days shall be valued at the weighted average price at which they are traded on the particular valuation day. When such securities are not traded on a particular valuation day they shall be valued on amortization basis. It is further clarified that in case of floating rate securities with floor and caps on coupon rate and residual maturity of up to 30 days then those shall be valued on amortization basis taking the coupon rate as floor.

II. Valuation of money market and debt securities with residual maturity of over 91 days:

All money market and debt securities, including floating rate securities, with residual maturity of over 30 days shall be valued at weighted average price at which they are traded on the particular valuation day. When such securities are not traded on a particular valuation day they shall be valued at benchmark yield/ matrix of spread over risk free benchmark yield obtained from agency(ies) entrusted for the said purpose by AMFI.

III. Valuation of securities not covered under the current valuation policy:
In case of securities purchased by mutual funds do not fall within the current framework of the valuation of securities then such mutual fund shall report immediately to AMFI regarding the same. Further, at the time of investment AMCs shall ensure that the total exposure in such securities does not exceed 5% of the total AUM of the scheme. AMFI has been advised that the valuation agencies should ensure that the valuation of such securities gets covered in the valuation framework within six weeks from the date of receipt of such intimation from mutual fund. In the interim period, till AMFI makes provisions to cover such securities in
the valuation of securities framework, the mutual funds shall value such securities using their proprietary model which has been approved by their independent trustees and the statutory auditors.

IV. Dissemination of information:

All mutual funds shall provide transaction details, including inter scheme transfers, of money market and debt securities on daily basis to the agency entrusted for providing the benchmark yield/ matrix of spread over risk free benchmark yield. Submission of data would help in daily matrix generation and would improve uniformity and accuracy of valuation in the mutual funds industry. The format in this regard is provided in SEBI Circular No.MFD/CIR/23 /066 / 2003 dated March 7, 2003.

V. Methodology for matrix of spread for marking up the Benchmark yield

In the methodology for pricing the non traded debt securities detailed in para 3(ii)(b) of SEBI Circular. MFD/CIR/ 8 / 92 / 2000 dated September 18, 2000 and para 3 of SEBI circular MFD/CIR/ no 14 / 442 / 2002 dated February 20, 2002, additional duration bucket(s) viz., 0.25- 0.5 years shall be provided.

VI. Consistency

All AMC's shall ensure that similar securities held under its various schemes shall be valued consistently.

3. The aforesaid valuation would be applicable with effect from July 1, 2010.

4. SEBI circulars No. MFD/CIR/ 8 / 92 / 2000 dated September 18, 2000, MFD/CIR/14 /088 / 2001 dated March 28, 2001, MFD/CIR/ no 14 / 442 / 2002 dated February 20, 2002 and MFD/CIR/23 /066 / 2003 dated March 7, 2003 stand modified to the aforesaid extent.

5. This circular is issued in exercise of powers conferred under section 11(1) of the Securities and Exchange Board of India Act, 1992, read with the provisions of regulation 77 of SEBI (Mutual Funds) Regulations, 1996 to protect the interests of Investors in securities and to promote the development of and to regulate the securities market.

AMFI Circulars on Valuation

A.

35/MEM-COR/25/08-09 August 07, 2009

To All Members

Dear All,

Valuation of Debt Securities

The AMFI Valuation Committee has taken the initiative towards a refined Debt Valuation process in order to appropriately value Debt Securities. The Committee after extensive discussion and in consultation with CRISIL has proposed to introduce 2 yield matrices segregated and based on sectors as follows.

1. Yield matrix covering securities issued by NBFCs, Real Estate Companies and PTC
2. Yield matrix applicable to all other sectors.

SEBI has approved the generation of dual yield matrices and accordingly we have advised CRISIL to supply the same to all the Members and CRISIL has confirmed that they would be in a position to start sending the dual matrices by August 12, 2009.

As decided in the SEBI Mutual Fund Advisory Committee meeting, we have to have a second Valuer also and it was decided to engage ICRA as the second Valuer. The Valuation Committee is currently finalizing the methodology and other details with ICRA and a further communication on this will be issued later.

B.

Dear All,

AMFI has informed ICRA to start sending Daily Yield Matrices in the specified format to all AMCs on daily basis from December 8, 2009. AMFI has also requested CRISIL to provide the 'Aggregator Software' and send the daily yield matrices in the specified format, to all AMCs.

We request you to confirm by return mail whether the conscerned Department of your AMC/ Fund Accountant has received the above information/ software from ICRA and CRISIL.

Please revert immediately.

C. Valuation of Central Govt. Securities (CGs), State Development Loans (SDLs) and treasury Bills (TBs) **– August 6, 2010**

We would like to advise that CRISIL had agreed to send updated aggregator software to facilitate averaging of prices provided by CRISIL and ICRA for CGs, SDLS and TBs to all AMCs by August 2, 2010.

CRISIL and ICRA had agreed to provide prices for TBS with Maturity greater than 60 days with effect from August 04, 2010.

CRISIL shall be providing prices for SDLs (held by the industry) from Monday 09, 2010. ICRA shall be providing prices for CGs and SDLs from September 01, 2010. Till that time only CRISIL prices to be used for valuation of SDLs. After September 01, 2010 on receipt of prices from ICRA the average of the two prices to be used.

You are requested to send SDL Security details of your AMC to ICRA and CRISIL in the following format:

ISIN	**Name of Security**	**Coupon**	**Redemption date**

D. Valuation of Debt and Money Market instruments – August 13, 2010

AMFI had received a proposal from ICRA giving commercial terms for undertaking the Valuation of Money Market Instruments, Central Govt. Securities, Treasury Bills and State Development Loans. The proposal has been considered and approved by the AMFI Board at its meeting held on August 11, 2010.

Accordingly, ICRA will be charging the fees providing Valuation Matrices to AMCs as under:

Valuation Matrices for Money Market Instruments:

Fees shall be charged at Rs.2,00,000/- per annum per AMC to whom the Yield Matrices are provided with effect from August 01, 2010. AMC joining in between the year shall be paying the fees on pro-rata basis.

Valuation Matrices for Central and State Govt. Securities, Treasury Bills and State Development Loans:

Fees shall be charged at Rs.2,50,000/- per annum per AMC to whom the Yield Matrices are provided with effect from September 01, 2010. AMC joining in between the year shall be paying the fees on pro-rata basis.

The above fees is inclusive of all expenses that might be incurred by ICRA but subject to levy of Service Tax / any other tax / cess at the rate prevailing on the date of invoice and shall be valid initially for a period of two years subject to revision based on mutual discussion thereafter.

ICRA will be raising the bill every quarter in advance and shall be payable within 15 days.

E. Valuation of Securities – December 28, 2010

This has reference to various queries received by AMFI from some of the AMCs regarding valuation of Equity linked debentures, Interest Rate Swaps and Mutual Fund units. The matter was examined by the AMFI Committee on Valuation and their decisions at its meeting held on October 20, 2010 and subsequent meeting with CRISIL are given in brief below:

1. Valuation of Equity- linked Debentures / Notes (ELNs)
To continue the current practice of valuing these instruments on the basis of bid offer price provided by issuer and internal documentation of the methodology for the same signed off by respective investment committees/Trustees.

2. Interest Rate Swap valuation
Detailed methodology would be worked out by CRISIL for valuation of Interest Rate Swap and the same would become part of the Bond Valuer software.

3. Valuation of MF units and ETFs
MF units listed and traded would be valued at the closing traded price as on the valuation date. Unlisted MF units and listed untraded MF units would be valued at NAV (adjusted for load if any) on the valuation date.

4. Interpolation time period for valuation of securities
To increase Interpolation time period for valuation of securities from 5 days to 15 days on either side of the bucket.

5. Multiple Put/Call papers with variable premiums
The securities having Put and Call Options on the same day but at different prices would not be treated as maturity date of the instrument and would be valued at Put and Call dates. Lower of the best of Put and worst of Call would be taken as the price for valuation

Securities with Call Option within 30 days and maturity beyond 30 days would be valued at two of the lower prices viz. Amortisation price (based on Call date) and Valuation price (as on maturity date).

6. Bond Valuer Software

CRISIL has been advised to take necessary action for modifying Bond Valuation software, if necessary, to implement the above decisions.

F. Renewal of CRISIL's services for valuation of gilt and corporate bonds for the mutual fund industry – March 15, 2011

The services provided by the CRISIL for valuation of gilt and corporate bonds for Mutual Fund Industry were due for renewal on December 01, 2010. AMFI had received proposal from them for renewal of the same with increase in the fees.

The said proposal was considered at the AMFI Board meeting held on December 15, 2010. After giving due consideration to all the factors including increase in fees granted continuously in earlier years and after detailed discussion with the representatives of the company, it has been decided to renew CRISIL's services for valuation of debt securities on the following terms and conditions with effect from January 01, 2011:

(a) The charges per Asset Management Company per annum for providing valuation for all Debt Securities including SDL will be on the following basis:

Assets Under Management of Debt Schemes as of December 31 every year Fees chargeable

Between 1-1000 crores	Rs. 3.5 lakhs per year
Between 1001 to 5000 crores	Rs. 5.5 lakhs per year
Between 5001 to 20000 crores	Rs. 7.0 lakhs per year
Above 20000	Rs. 8.0 lakhs per year

For the purpose of arriving at applicable slab and fees, the AUM as of 31st December every year shall be considered and payment shall be made accordingly for the following year. For eg to calculate the fees payable for 2011 calendar year, 31st December 2010 AUM under Debt Schemes will be considered, so on and so forth.

(b) The above charges shall be applicable for next three years subject to annual increase @10%, 12% and 15% in respectively and are subject to review thereafter.

(c) The other terms and conditions such as providing access to five users per AMC and charging of onetime fees of Rs 3.5 lacs for separate installation for Disaster Recovery (DR) as per request of AMC and yearly maintenance charges of Rs. 70,000/- from the second year for the same remains unchanged.

G. Valuation of Debentures received as corporate action in Index or Equity Scheme – June 17, 2011

This has reference to query received by AMFI from one of the AMCs regarding valuation of debentures received as corporate action in Index or Equity Schemes. The matter was discussed by the members of the AMFI Committee on Valuation.

The Valuation Committed, after deliberation, has recommended that any security held by a fund has to be valued according to the prevalent valuation guidelines and norms for that category of security irrespective of mode of acquisition of such security. In view of this, debentures received on account corporate action should also be valued as per the valuation methodology prescribed by SEBI.

H. AMFI had issued guidelines on valuation of ETF and Units of Mutual Funds vide its

letter No.1/Valuation/16/10-11 dated December 28, 2010: June 30, 2011:

The matter was re-examined and discussed by the Valuation Committee and has recommended that MF Units listed and Traded would be valued at the closing traded price as on the valuation date. Unlisted MF Units and listed-but-not-traded MF Units would be valued at the NAV as on the valuation date.

I. Amendment to SEBI (Mutual Funds) Regulations, 1996 vide Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2012 on 21st February, 2012.

(vii) in the Eighth Schedule,
(a) in the reference title, the word and number, "regulation 47" shall be substituted with the word and numbers "regulations 25(19), 47";

(b) the words and symbol "Mutual fund shall value its investments according to the following valuation norms:" appearing under the heading "Investment Valuation Norms", shall be omitted;

(c) after the heading "Investment Valuation Norms", the following sub-headings and clauses shall be inserted, namely:–

"Principles of Fair Valuation
Mutual fund shall value its investments in accordance with the following overarching principles 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:
(a) 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 valuation shall be done in good faith and in true and fair manner through appropriate valuation policies and procedures.
(b) The policies and procedures approved by the Board of the asset management company shall identify the methodologies that will be used for valuing each type of securities/assets held by the mutual fund schemes. Investment in new type of securities/assets by the mutual fund scheme shall be made only after establishment of the valuation methodologies for such securities with the approval of the Board of the asset management company.

(c) The assets held by the mutual funds shall be consistently valued according to the policies and procedures. The policies and procedures shall describe the process to deal with exceptional events where market quotations are no longer reliable for a particular security.

(d) The asset management company shall provide for the periodic review of the valuation polices and procedures to ensure the appropriateness and accuracy of the methodologies used and its effective implementation in valuing the securities/assets. The Board of Trustee and the Board of asset management company shall be updated of these developments at appropriate intervals. The valuation policies and procedures shall be regularly reviewed (at least once in a Financial Year) by an independent auditor to seek to ensure their continued appropriateness.

(e) The valuation policies and procedures approved by the Board of asset management company should seek to address conflict of interest.

(f) Disclosure of the valuation policy and procedures (with regard to valuation of each category of securities/assets where the scheme will invest, situation where these methods will be used, process and methodology and impact of implementation of these methods, if any) approved by the Board of the asset management company shall be made in Statement of Additional Information, on the website of the asset management company /mutual fund and at any other place where the Board may specify to ensure transparency of valuation norms to be adopted by asset management company.

(g) The responsibility of true and fairness of valuation and correct NAV shall be of the asset management company, irrespective of disclosure of the approved valuation policies and procedures i.e. if the established policies and procedures of valuation do not result in fair/ appropriate valuation, the asset management company shall deviate from the established policies and procedures in order to value the assets/ securities at fair value:

Provided that any deviation from the disclosed valuation policy and procedures may be allowed with appropriate reporting to Board of Trustees and the Board of the asset management company and appropriate disclosures to investors.
(h) The asset management company shall have policies and procedures to detect and prevent incorrect valuation.

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

(j) In order to have fairness in the valuation of debt and money market securities, the asset management company shall take in to consideration prices of trades of same security or similar security reported at all available public platform.

In addition to the above, a mutual fund may value its investments according to the following Valuation Guidelines. In case of any conflict between the Principles of Fair Valuation as detailed above and Valuation Guidelines issued by the Board hereunder or elsewhere, the Principles of Fair Valuation detailed above shall prevail.

Valuation Guidelines";
(d) in sub-clause (ii) of clause 2, after the words and symbol "Board of the asset management company." and before the words, "Such decision of the Board", the following words and symbol shall be inserted, namely:–

"For example, non traded debt and money market securities of short term maturities, as may be specified by the Board from time to time, may be valued on amortization basis provided that such valuation shall be reflective of the fair value of the securities and all investors are treated fairly."

J. AMFI Circular:

135/ BP/ 42/ 2013-14 November 19, 2013

To All members

Dear Sir / Madam,

Sub : AMFI Best Practice Guidelines Circular No. 42/ 2013-14 – Scrip level valuation for debt securities having maturity greater than 60 days

This is further to the AMFI Best Practice Guidelines 135/BP/29/2012-13 dated May 15, 2012.

The Valuation Committee of AMFl was engaged with both CRlSlL and ICRA to get security level fair-valuation of debt securities with maturity greater than 60 days, so as to have a consistency in pricing for such securities across all mutual fund schemes. CRlSIL and ICRA have worked out a detailed valuation methodology, which was presented to all AMCs recently.

Both the agencies are currently sending the price information on a daily basis to all AMCs for all securities above 60 days of maturity and yield matrix for less than 60 days of maturity. We are now ready to implement the scrip level valuation. We would now request all AMCs to implement the scrip level valuation based on data received from CRISIL and ICRA on or before 30th November 2013. CRISIL and ICRA would provide both the scrip level price as well as the yield curve above 60 days till 30thNovember 2013. From 1st December 2013, the agencies would provide only scrip level pricing for securities above 60 days and also continue to provide yield matrices for securities below 60 days.

CRISIL bond valuer has been enhanced to aggregate the prices provided by both the agencies. Additionally, ICRA is also geared up to provide ICRA bond valuer tool along with aggregator. AMCs can now select any of the bond valuer or aggregator from either of the two service providers.

AMCs may take note of this circular and modify their respective valuation policy accordingly. It is recommended that AMCs take all suitable action as may be required at their end to ensure implementation of the scrip level valuation on or before 30th November 2013.

The format of the agreements provided by both the agencies are also enclosed along with the commercial terms. AMCs, as per their internal policies, may enter into agreements, with the two agencies accordingly.
All AMCs are requested to confirm having noted the contents of this circular for due compliance. They are also advised to put up this Circular in the immediate next meeting of their Trustees for information.
With Regards,

C G Parekh
Sr. Vice President
Association of Mutual Funds In India