LIC Mutual Fund Asset Management Ltd

(Investment Manager to LIC Mutual Fund)

Valuation Policy

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Background:

The Eighth Schedule to the Securities and Exchange Board of India (SEBI) Mutual Funds Regulations, 1996 together with various circulars issued by SEBI & best practice guidelines issued by Association of Mutual Funds in India ("AMFI') from time to time prescribes the norms, methodology and guiding principles for valuation of investments held by Mutual Fund Schemes.

Valuation of securities held by all LIC Mutual Fund Schemes is done in conformity with these valuation norms. The subject valuation policy document is reviewed and approved by the Board(s) of LIC Mutual Fund Asset Management Ltd and LIC Mutual Fund Trustee Pvt. Ltd.

SEBI, vide Gazette Notification No. LAD-NRO/GN/2011-12/38/4290 dated February 21, 2012 as brought about certain amendments to Regulations 25 and 47 and to the Eighth Schedule to the Securities and Exchange Board of India (SEBI) Mutual Funds Regulations, 1996 on "Principles of Fair Valuation" to ensure at all points in time, fair treatment to all investors.

The asset management company and the sponsor of the mutual fund shall be liable to compensate the affected investors and/or the scheme for any unfair treatment to any investor as a result of inappropriate valuation. While the amendment regulations mandate AMCs to establish valuation policies and procedures, it also allows the AMC to deviate from these policies and procedures where it is necessary and expedient to do so to ensure a true and fair valuation. Accordingly, in the event of a conflict between the principles of fair valuation and valuation guidelines, the principles of fair valuation shall prevail.

The asset management company is required to constitute a Valuation Committee, which is responsible for on-going review of the valuation procedures / methodologies adopted to assess their appropriateness and accuracy in determining the fair value of securities / assets.

A. **Valuation Committee**:

LIC Mutual Fund's Valuation Committee comprises the following personnel:

Chief Operating Officer - **Chairperson**

Chief Risk Officer

Chief Investment Officer – Equity

Chief Investment Officer-Debt

AGM – Market Operations & Fund Accounting - **Convener**

The composition of the Valuation Committee may change from time to time, as decided & amended by the competent authority, duly delegated by the Board of Asset Management Company and Trustee.

The scope of activities / responsibilities of the Valuation Committee are listed below:

- Reviewing and recommending the Valuation Policy to the AMC and Trustee Board of Directors for their noting/approval
- Review of accuracy and appropriateness of methods adopted for valuation of securities
- Defining valuation procedure / methodology for new types of securities /assets
- Determining fair valuation of securities / assets during exceptional events where the defined procedures / methods for valuation do not yield a fair value of the securities / assets
- Identifying and addressing potential conflicts of interest situations in valuation of securities
- Engaging with the Independent Auditor to ensure regular review of the valuation policy, procedures and methodology including rationale for deviations, if any
- Reporting any deviations / incorrect valuations to the Board of Directors of the Trustee and the AMC and appropriate disclosures to the investors.
- Review of regulatory amendments with regard to valuation and implementation of the same subject to approval/ ratification of the Board of AMC and Board of Trustees.

B. **Scope & Coverage**:

The following are covered within the scope of this Valuation policy:

- Defining valuation procedures / methodologies for various types of securities
- Valuation of securities / assets in the event of an inter-scheme transfer
- Review of valuation policies and procedures and reporting to the various stakeholders
- Recording of deviations from established policies and procedures and rationale for same
- Dealing with Conflict of Interests (including potential conflict of interest) which has / may have a bearing on valuation of securities
- Valuation of securities / assets during exceptional events.

The Valuation Committee would conduct a periodic review of the policy to confirm its completeness & appropriateness and suggest any suitable amendments. Such changes need to be placed before the Board of Directors of the Trustee and the AMC for approval, as appropriate.

All assets held by the Fund shall be consistently valued according to the defined valuation methodology. Where it is observed that the above-defined methodology does not lead to fair valuation of securities / assets, the Valuation Committee may on a prospective basis deviate from the defined methodology and adopt alternate procedures / methods to arrive at the fair value. The rationale for any such deviations would be recorded in writing and placed before the Board of Directors of the Trustee and the AMC and appropriate disclosures to the investors would be made. Investments in any new type of securities/assets by the mutual fund scheme shall be made only after establishment of the valuation methodologies for such securities / assets with the approval of the Board of the Asset Management Company

C. **Policy Review and Reporting:**

The Valuation Committee shall update the Board of Directors of the Trustee and the AMC at periodic intervals of the outcome of such review and the effectiveness of the valuation policy, procedures and methodologies in use. The Valuation Committee shall also place the following before the Board of Directors of the Trustee and the AMC:

- Recommended valuation procedure / methodology for new types of securities / assets for approval of the Board
- Deviations in methodology adopted for fair valuation of securities / assets on account of exceptional events with rationale for the same
- Incorrect Valuations, if any, and associated corrective action
- Identified conflicts of interest (including potential conflict of interest) if any, and mitigatory measures adopted to address the same.

D. **Conflict of Interest:**

The valuation policy, procedures and methodologies laid down in this policy would be uniformly followed to ensure consistency in valuation of securities / assets across all Funds except during exceptional events (as detailed in section titled Dealing with Exceptional Events).

The Valuation Committee shall be responsible to identify areas of conflict of interest (including potential areas, if any). Some of the key areas where a potential conflict of interest may arise and the mitigatory measures are indicated below:

(a) Inter-Scheme Trades: Inter-Scheme transfer of securities / assets between two funds managed by the same Fund Manager - For all inter-scheme transfers, for the purpose of valuation the procedure described in Section titled Inter-Scheme Transfer shall be followed

(b) Investments in Associate/Group Companies: Investments in any associate / group companies would be made only based on independent research recommendation (which would include independent internal research team recommendation) and the valuation procedures described in Section titled Valuation Methodology shall be followed. This will ensure that all the Valuation Policy is applied to all securities uniformly.

E. Exceptional Events:

Exceptional events are events during which reliance cannot, reasonably and in good faith, be placed on the available market information for a fair valuation of securities. These events generally lead to artificial, unsustainable prices and may therefore warrant a departure from the established valuation methodology / procedures and adoption of alternate methods/ judgement to reflect the realizable value of the securities / assets in conformity with the principles of fair valuation. The Valuation Committee is authorized by the Board of AMC and Trustee to determine the exceptional events and devise the process to deal with the exceptional events.

Following events could potentially be classified as exceptional events:

- Major policy announcements by the Reserve Bank of India, the Government or Regulator
- Natural disasters or public disturbances that force markets to close unexpectedly
- Absence of trading in specific security
- Significant volatility in the capital markets
- Liquidity crunch in debt markets
- Heavy redemption pressures.
- Credit events affecting a company or sector falling below the investment grade.

The above list is illustrative and not exhaustive. Given the exceptional nature of these events and the lack of clarity on how it would impact the markets, it is not possible to define a standard methodology to be adopted for fair valuation of securities for such events. The Valuation Committee shall be responsible for identifying and monitoring exceptional events and recommending appropriate alternate procedures / valuation methodologies with necessary guidance from the AMC Board, wherever required. The Valuation Committee shall adopt such alternate procedures / methodologies in conformance with the guiding principles of fair valuation in good faith to arrive at a true and fair estimation of the realizable value of the security / asset under normal, business-as-usual circumstances. These alternate procedures / methodologies would be progressively and prospectively applied during the continuance of the exceptional events unless otherwise decided by the Valuation Committee in consultation with the AMC Board of Directors, wherever required.

The rationale for any such deviations from the valuation policy would be recorded in writing by the Valuation Committee followed by reporting to the Board of AMC and Trustee. Such deviations shall be appropriately disclosed to the Investors as may be decided by the Valuation Committee.

The Policy shall be made available on the website of the Fund.

F. Definitions:

i. Thinly Traded Equity Securities

An equity and / or equity related securities (such as preference shares, convertible debentures, equity warrants etc.) would be considered as thinly traded if in a previous calendar month:

a) the aggregate value of trade in such security is less than Rs. 5,00,000; and
b) the total volume of trade in such security is less than 50,000 shares, in recognised stock exchange in India.

For example, if the volume of trade is 1,00,000 and value is Rs.4,00,000, the shares do not qualify as thinly traded. Also, if the volume traded is 40,000, but the value of trades is Rs.6,00,000, the shares do not qualify as thinly traded.

ii. Non-Traded Equity Securities

When a security (other than money market and debt securities) is not traded on any stock exchange for a period of thirty days prior to the valuation date, the scrip shall be treated as a non- traded security.

iii. Unlisted Securities

When a security is not listed on any of the stock exchanges, it would be considered as unlisted security.

iv. Recognized Stock Exchange

National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) would be considered as recognized stock exchanges in India.

v. Primary Stock Exchange

National Stock Exchange (NSE) would be considered as primary stock exchange.

vi. Secondary Stock Exchange

Bombay Stock Exchange (BSE) would be considered as secondary stock exchange.

vii. Below Investment Grade

All money market or debt security shall be classified as "**below investment grade**" if the long term rating of the security issued by a SEBI registered Credit Rating Agency (CRA) is below BBB- or if the short term rating of the security is below A3.

viii. Traded Money Market and Debt Securities

A money market or debt security shall be considered as traded when, on the date of valuation, there are trades (in marketable lots) in that security on any recognized Stock Exchange or there are trades reported (in marketable lots) on the trade reporting platform of recognized stock exchanges or The Clearing Corporation of India Ltd. (CCIL). In this regard, the marketable lots are defined by AMFI, in consultation with SEBI.

Currently, marketable lot as defined by AMFI is as follow:

Parameter	Minimum Volume criteria for marketable lot
Primary	Rs. 25 crores for both Bonds/NCD/CP/CD and other money market instruments
Secondary	Rs. 25 crores for CP/CD, T-Bills and other money market instruments
Secondary	Rs. 5 crores for Bonds/NCD/G-Secs

ix. Non-Traded Money Market and Debt Securities

A money market or debt security shall be considered as non-traded when, on the date of valuation, there are no trades (in marketable lots) in such security on any recognized Stock Exchange or no trades (in marketable lots) have been reported on any of the aforementioned trade reporting platforms.

x. Government Securities

a. Central Government Securities (G-Sec)
b. State Development Loans (SDL)
c. Treasury Bills (T-Bills)
d. Cash Management Bills (CMB)

xi. Reporting platforms

a. CBIRCS - Corporate Bond Reporting & Integrated Clearing System
b. ICDM - Indian Corporate Debt Market
c. FTrack- Reporting platform by CCIL (The Clearing Corporation of India Ltd.)

xii. SEBI registered Credit Rating Agency (CRA)

a. CRISIL Limited (CRISIL)
b. India Ratings and Research Pvt. Ltd. (formerly Fitch Ratings India Pvt. Ltd.)
c. ICRA Limited (ICRA)
d. Credit Analysis & Research Ltd. (CARE)
e. Brickwork Ratings India Pvt. Ltd.
f. SMERA Ratings Limited
g. Infomerics Valuation and Rating Pvt. Ltd.

xiii. Valuation Agencies

Currently, AMFI / SEBI authorised valuation agencies are ICRA and CRISIL.

Security Valuation & Interscheme Transfer Policy

1. Valuation of Equity and Equity related Instrument

1.1 Valuation of Equity Shares

Traded securities are to be valued at the last quoted closing price on the exchange in which the security is listed.

a. Traded Securities

i. On a valuation day, traded securities are to be valued at the last quoted closing price on the primary stock exchange (NSE).

ii. When on a valuation day, a security has not been traded on the primary stock exchange (NSE); the value at which it is traded on secondary stock exchange (BSE) will be used.

iii. When 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 30 days prior to valuation date.

iv. For valuation of securities held by Exchange Traded Funds (ETFs) and Index funds which are benchmarked to indices relating to a particular stock exchange, the primary stock exchange will be that exchange, e.g. for an Index Fund -Sensex or Sensex ETF, the primary stock exchange will be the BSE

b. Thinly Traded / Non-Traded Securities and Unlisted Securities

Thinly-traded/ Non-traded and Unlisted Securities are valued in "good faith" in accordance with SEBI norms as prescribed below:

❖ **Net worth Calculation**

➢ **Thinly-traded/ Non-traded**

Based on the latest available Balance Sheet, Net Worth shall be calculated as follows.

Net Worth per share = [share capital + reserves (excluding revaluation reserves) – Miscellaneous expenditure and Debit Balance in P&L A/c] Divided by Number of Paid up Shares.

➢ **Unlisted Securities**

Based on the latest available Audited Balance Sheet, Net Worth shall be calculated as lower of (1) and (2) below:

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

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

- **Average PE Calculation**

  Average capitalisation rate (P/E ratio) for the industry based upon either NSE or BSE data 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.

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 valuation methodology for Thinly Traded /Non-Traded and Unlisted Securities shall be subject to the following conditions:

- All calculation shall be based on audited accounts.
- If the latest Balance Sheet of the company is not available within nine months from the close of the year, unless the accounting year is changed, the shares of such companies shall be valued at zero.
- If the Net Worth of company is negative, the shares of such companies shall be valued at 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 shall be valued by the procedure above and the proportion which it bears to the total net assets of the scheme to which it belongs will be compared on the date of valuation.
- 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.

c. Valuation of Suspended Equity Shares

i) In case trading in an equity security is suspended up to thirty days, then the last traded price shall be considered for valuation of that security.

ii) If an equity security is suspended for more than thirty days, valuation methodology laid down for thinly traded / non-traded equity will be used for calculating the fair value.

d. Valuation of Illiquid Security

i) 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.

ii) Mutual 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 disclosing Half Yearly Portfolios to the unit holders. In the list of investments, an asterisk mark shall be given against all such investments which are recognised as illiquid securities.

iii) Mutual Funds shall not be allowed to transfer illiquid securities among their schemes.

1.2 Valuation of Equity Warrants

In respect of warrants to subscribe for shares attached to instruments, the warrants can be valued at the value of the share which would be obtained on exercise of the warrant as reduced by the amount which would be payable on exercise of the warrant. The value of the latter instrument can be adopted after an appropriate discount of the non-tradability of the instrument during the period preceding the conversion while valuing such instruments. If the warrants exercise price exceeds the underlying equity price, warrants would be valued at zero.

1.3 Valuation of Rights Entitlement

i) Until they are traded, or after the expiry of trading window on the exchange and rights are not renounced till the date, the value of the "rights" shares should be calculated as:

$Vr = n/m \times (Pex - Pof)$

Where

Vr = Value of rights

n = No. of rights offered

m = No. of original shares held

Pex = Ex-rights price

Pof = Rights Offer Price

ii) Ex-right price of underlying security will be considered separately for each valuation day.

iii) Incase if the rights offer price is higher than the ex-rights price, value of the rights share is to be taken as zero.

iv) Where the rights are not treated pari passu with the existing shares, suitable adjustment should be made to the value of rights.

v) 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.

vi) Where it is decided to subscribe the rights, the valuation of rights entitlement will be done as per the guidelines stated in clause (i) to (iv) above.

vii) Valuation guidelines related to equity shares would be applicable from the date rights are subscribed.

viii) On the expiry of the trading period and till the time of subscription, rights entitlement will continue to be valued at the last traded price, provided such price is within 30 days from the valuation date.

1.4 Valuation of Preference Shares

i) If traded, then they would be valued as per the valuation guidelines applicable to equity shares.

ii) If not traded, then Intrinsic value will be considered.

iii) The non-convertible preference share will be valued at the present value of all the future expected dividend payments and the maturity value, discounted at the expected return on preference shares. The valuation committee will decide upon variables like expected future dividend, expected rate of return etc. on a case to case basis depending on the terms of issue of the preference shares.

iv) Convertible Preference shares would be valued at the value of the equity share which would be obtained on conversion, further appropriate discount for illiquidity should be applied. The illiquidity percentage will be decided by the Valuation Committee on a case to case basis. Valuation guidelines related to equity shares would be applicable for the valuation of underlying equity shares.

1.5 Valuation of Convertible debentures

i) In respect of convertible debentures and bonds, the non-convertible and convertible components shall be valued separately.

ii) The non-convertible component should be valued on the same basis as would be applicable to a debt instrument.

iii) The convertible component should be valued on the same basis as would be applicable to an equity instrument.

iv) If, after conversion the resultant equity instrument would be traded pari passu with an existing instrument which is traded, the value of the latter instrument can be adopted after an appropriate discount of the non-tradability of the instrument during the period preceding the conversion while valuing such instruments, the fact whether the conversion is optional should also be factored in.

1.6 Valuation of Partly Paid-up Equity Shares

i) In case the partly paid-up equity shares are traded separately they would be valued as per the valuation guidelines applicable to any other listed equity shares.

ii) In case the partly paid-up equity shares are not traded then the partly paid-up equity shares will be valued at lower of the following two prices:

   a. Value of the underlying fully paid-up equity shares as reduced by the amount of balance call money payable.

   b. The value at which it was traded on the earliest previous day may be used provided such date is not more than 30 days prior to valuation date

iii) Valuation guidelines related to equity shares would be applicable for the valuation of underlying fully paid-up equity shares.

iv) In case the trade price of the partly paid-up equity shares were not available for last 30 days or in case of unlisted partly paid-up equity shares, it will be valued at the value of the underlying fully paid-up equity share as reduced by the amount of balance call money payable.

1.7 Valuation of Initial Public Offering (IPO) Allotment

Securities awaiting listing on account of IPO is to be valued at allotment price.

1.8 Valuation of QIP (Qualified Institutional Placement – Equity Shares)

The equity shares allotted through QIP process, having no lock-in period, should be considered on the same lines as the existing listed equity shares and hence should be valued at the market/traded price of the existing listed equity shares.

Further an appropriate discount for illiquidity should be applied for equity shares allotted through QIP process having a lock-in period of one year. The illiquidity percentage will be decided by the Valuation committee on a case to case basis.

2. Valuation of Future & Options:

i) On the valuation day, Future & Options will be valued at the settlement price, published by the NSE

ii) If the settlement price is not available, then closing price for the security will be considered for the valuation.

iii) Futures MTM is computed on daily basis and computed on scrip wise and series wise.

iv) MTM Gain/Loss = Current day settlement or Closing price - Previous day settlement or Closing price (If scrip is purchased first time then it is a Current day settlement or Closing price - Weighted Average Price (WAP)).

3. Valuation of Securities Lent under Securities Lending Scheme

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

4. Valuation of Indian Depositories Receipts (IDR)

Valuation of IDRs listed on the India Stock Exchange would follow the valuation guidelines adopted for the Listed Indian Equity Shares. In case the IDRs are classified as thinly traded / non-traded, the criteria, as laid above for Listed Indian Equity Shares shall be applied taking into consideration the relevant Company's Balance Sheet.

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

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

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

iii) When units of InvIT/ReITs is not traded on any stock exchange on a particular valuation day, the value at which it was traded on the 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 30 days prior to valuation date.

iv) Where units of InvIT and ReIT are not traded on any stock exchange for continuous period of 30 days than the valuation for such units of InvIT and ReIT will be determined based on the price provided by an independent valuation agency(ies) or at latest NAV declared by Investment managers of the trust, as the case may be. The selection of the independent valuation agency(ies) will be approved by the Valuation Committee.

v) Where the valuation of units of InvIT and ReIT is not available from any independent valuation agency(ies), the valuation will be determined by the valuation committee on the principles of fair valuation.

6. Corporate Action

6.1 De-merger, Merger, Amalgamation and Scheme of Arrangement

On corporate action, above valuation guidelines may be difficult to adopt due to non-availability of the Balance Sheet of the restructured entities in public domain or the resultant securities come up for listing after few days while the valuation required to be carried out effective on the date of the corporate action itself. Besides, in such case there are generally no comparative parameters readily available for carrying out the valuation exercise. Following broad valuation guidelines would be used for the valuation of securities resulting from the corporate actions:

a. De-Merger

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

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

Traded shares of De-merged Company will be valued at traded price and the shares of Resulting Company will be valued by residual price methodology which would be the closing value of the shares of De-merged Company on the day before the de-merger less opening value of the shares of De-merged Company immediately post de-merger.

If value of the shares of De-merged Company is equal or in excess of the value of pre de- merger shares, then the shares of Resulting Company will be valued at Zero.

iii. In case there are more than one Resulting Companies along with the De-merged Company and all or some Resulting Companies are unlisted / non-traded:

The shares of Resulting Companies will be valued by residual price methodology as explained in point (ii) above. The residual value will be allocated into Resulting Companies in the ratio provided as a part of scheme of arrangement or such other ratio as decided by the Valuation Committee. If one of the Resulting Companies is listed / traded, the residual value of unlisted / non-traded Resulting Companies would be further determined by reducing the traded value of listed Resulting Companies from the residual value computed as above.

iv. In case shares of both the companies (De-merged Company and Resulting Companies) are not traded on de-merger:

The traded value of the De-merged Company on the day before the de-merger will be allocated between De-merged Company and Resulting Companies in the ratio provided as a part of scheme of arrangement or such other ratio as decided by the Valuation Committee.

v. Cost allocation would be done proportionate to the derived value of the resultant scrips or other appropriate basis to be decided on case to case basis depending on the terms of de- merger.

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

b. Merger

In case of merger, if the shares of the merged entity are not listed / traded, then valuation of the merged entity will be decided on case to case basis depending on the terms of merger and may be valued at previous day closing price of the respective companies prior to merger.

6.2 Buy-back of Securities

If a company offers to buy-back, market price of the shares will be considered for valuation till a formal confirmation of acceptance of shares by the issuer tendered under the buy- back schemes. Quantum of shares accepted under buy-back will be accounted as a sale trade.

6.3 Stock Split/ Face value change

In case of stock split, the face value of a stock is reduced and proportionately number of shares is increased. The valuation price will be derived on the basis of the closing price before the ex-date and adjusted in proportion of stock split, till the new stock split shares are listed and traded on a stock exchange. The cost of one share will be proportionately adjusted in line with stock split change, to derive the new cost of share. On stock split/face value change, in case the company specifies any regulations/ method for cost bifurcation or valuation the same will be adopted.

7. Fixed Income and related Instruments

7.1 Debt and Money market Instruments other than Government securities

Classification of Debt and Money market Instruments.

i. Debt instruments are Coupon bearing securities like Non-Convertible Debentures (NCD), Bonds, etc.

ii. Money market Instruments are Discounted securities like Zero Coupon Bonds (ZCB), Commercial Papers (CP), Certificate of Deposits (CD), Bills Purchased under Rediscounting Scheme (BRDS), Discounted Securitised Debt / Pass Through Certificate (PTC) etc.

➢ **Valuation of Debt and Money market Instruments and Bill Rediscounting**

Irrespective of residual maturity, all money market and debt securities shall be valued at average of security level prices obtained from valuation agencies.

In case security level prices given by valuation agencies are not available for a new security (which is currently not held by any Mutual Fund), then such security may be valued at purchase yield on the date of allotment / purchase and till such time the valuation agencies commence providing its price.

7.2 Valuation of securities with Put/Call Options

Reference: Provisions for "Valuation of securities with Put / Call options" in SEBI Circular No. MFD/CIR/ 8 / 92 / 2000 dated September 18, 2000

The option embedded securities would be valued as follows:

i. 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, Identify a 'Call Trigger Date', a date on which 'price to call option' is the lowest when compared with price to other call options and maturity price.

ii. 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, Identify a 'Put Trigger Date', a date on which 'price to put option' is the highest when compared with price to other put options and maturity price.

iii. Securities with both Put and Call option on the same day

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

a) Identify a 'Put Trigger Date', a date on which 'price to put option' is the highest when compared with price to other put options and maturity price.

b) Identify a 'Call Trigger Date', a date on which 'price to call option' is the lowest when compared with price to other call options and maturity price.

c) In case no Put Trigger Date or Call Trigger Date ('Trigger Date") is available, then valuation would be done to maturity price. In case one Trigger Date is available, then valuation would be done as to the said Trigger Date. In case both Trigger Dates are available, then valuation would be done to the earliest date.

7.3 Valuation of Government Securities

Irrespective of the residual maturity, Government Securities (including T-bills) shall be valued on the basis of security level prices obtained from valuation agencies.

7.4 Valuation of Tri-Party Repo (TREPS)

i. TREPS with residual maturity of over 30 days

Valued at average of security level prices obtained from valuation agencies appointed by AMFI.

In case security level prices given by valuation agencies are not available for a new TREPS (which is currently not held by any Mutual Fund), then such TREPS may be valued at purchase yield on the date of purchase.

ii. TREPS with residual maturity of upto 30 days

Valued at cost plus accrual basis.

Whenever a security moves from 31 days residual maturity to 30 days residual maturity, the price as on 31st day would be used for amortization from 30th day.

7.5 Valuation of Reverse Repo (including Corporate Reverse Repo)

i. Reverse Repo with residual maturity of over 30 days

Valued at average of security level prices obtained from valuation agencies appointed by AMFI. In case security level prices given by valuation agencies are not available for a new Reverse Repo (which is currently not held by any Mutual Fund), then such Reverse Repo may be valued at purchase yield on the date of purchase.

ii. Reverse Repo with residual maturity of upto 30 days

Valued at cost plus accrual basis.

Whenever a security moves from 31 days residual maturity to 30 days residual maturity, the price as on 31st day would be used for amortization from 30th day.

Note: All securities taken under Reverse Repo will not be considered for valuation. Only the interest income earned would be considered for NAV calculation.

7.6 Valuation of Fixed Deposits

Fixed Deposits will be valued at cost plus accrual basis.

7.7 Valuation of Mutual Fund Units (including units of ETF)

Investments in units of mutual fund schemes shall be valued at the net asset value of the respective schemes as on the valuation date.

7.8 Valuation of Interest Rate Futures

Such Instruments will be valued at the settlement price, published by the exchanges.

7.9 Treatment of Upfront Fees on Trades

i. Upfront fees on all trades (including primary market trades), by whatever name and manner called, would be considered by the valuation agencies for the purpose of valuation of security.

ii. Details of such upfront fees will be shared to the valuation agencies on the trade date as part of the trade reporting to enable them to arrive at the fair valuation for that date.

iii. For the purpose of accounting, such upfront fees will be reduced from the cost of the investment in the scheme that made the investment.

iv. In case upfront fees are received across multiple schemes, the such upfront fees will be shared on a pro-rata basis across such schemes.

7.10 Valuation of money market and debt securities which are rated below Investment Grade

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:

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.

A money market or debt security shall be classified as "**Default**" if the interest and / or principal amount has not been received, on the day such amount was due or when such security has been downgraded to "Default" grade by a CRA. In this respect, Mutual Funds shall promptly inform to the valuation agencies and the CRAs, any instance of non-receipt of payment of interest and / or principal amount (part or full) in any security.

8. Interscheme Transfer Policy

i. Interscheme Transfers of Equity and Equity Related Instruments

Any Interscheme transfer of Equity and Equity related instruments shall be valued at the prevailing spot market price for the quoted instrument at the time the transfer is effected.

For this purpose, at the time of effecting the inter-scheme transfer, a record of the prices for the security quoted in the relative stock exchange (i.e. NSE/BSE) or Bloomberg Terminal in which it is traded or reported would be obtained, which would indicate the date, time and the currently quoted price. The price given in the quotation of the stock exchange would be the effective price for the inter-scheme transfer.

ii. Interscheme Transfers of Debt, Money Market Instruments and Government Securities

a. IST of any money market or debt security (irrespective of maturity) will be done at an average of the prices provided by the valuation agencies, if prices from the valuation agencies are received within the pre-agreed turn-around-time (TAT).

b. If price from only one valuation agency is received within the agreed TAT, that price will be used for IST pricing.

c. If prices are not received from any of the valuation agencies within the agreed TAT, Valuation Committee will determine the price for the IST as per the available information, in accordance with Clause 3 (a) of Seventh Schedule of SEBI (Mutual Funds) Regulations, 1996.

9. Use of Own Trade for Valuation

Mutual Fund's own trades shall not be used for valuation of debt and money market securities and for Inter-Scheme Transfers.

10. Waterfall approach for valuation of Money Market and Debt Securities

As per SEBI guidelines on valuation of money market and debt securities, a waterfall approach shall be followed by the valuation agencies for arriving at security level pricing.

AMFI, in consultation with SEBI, has issued detailed guidelines on waterfall approach for valuation of money market and debt securities. The broad principles of the said waterfall approach, for arriving at the security level prices are as follow:

i. All traded securities shall be valued on the basis of traded yields, subject to identification of outlier trades by the valuation agencies.

ii. Volume Weighted Average Yield (VWAY) for trades in the last one hour of trading shall be used as the basis for valuation of Government Securities (including T-bills). Valuation of all other money market and debt securities (including Government securities not traded in last one hour) shall be done on the basis of VWAY of all trades during the day.

iii. In case of any exceptional events on a day, only VWAY of trades post such event may be considered for valuation. Further, all exceptional events along-with valuation carried out on such dates shall be documented with adequate justification. The following events would be considered as exceptional events:

   a. Monetary / Credit Policy
   b. Union Budget
   c. Government Borrowing / Auction Day
   d. Material Statements on Sovereign Rating
   e. Issuer or Sector Specific events which have a material impact on yields
   f. Central Government Election Days
   g. Quarter end days
   h. In addition to the above, valuation agencies may determine any other event as an exceptional event.

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

v. Considering the importance of polling in valuation process, detailed guidelines has also been issued by AMFI on polling by valuation agencies and on the responsibilities of Mutual Funds in polling process, as part of the aforesaid waterfall approach.

The following are the guiding circulars / schedules/guidelines/amendments for framing the Valuation Policy.

- EIGHTH SCHEDULE SEBI (MUTUAL FUNDS) REGULATIONS,1996
- Master Circular for Mutual Funds issued by SEBI.