



Investment Valuation Policy

Table of Contents

1. INTRODUCTION	4
1.1 OBJECTIVE	4
1.2 TARGET AUDIENCE	4
2. LIST OF ACRONYMS	4
3. SCOPE AND COVERAGE.....	5
4. CONFLICT OF INTEREST	5
5. EXCEPTIONAL EVENTS	6
6. VALUATION COMMITTEE.....	7
7. POLICY REVIEW AND REPORTING	8
8. DEFINITIONS.....	8
9. VALUATION OF EQUITY AND EQUITY RELATED INSTRUMENT	11
9.1 VALUATION OF EQUITY SHARES	11
9.2 VALUATION OF NON-TRADED EQUITY WARRANTS	13
9.3 VALUATION OF RIGHTS ENTITLEMENT	13
9.4 VALUATION OF PREFERENCE SHARES	14
9.5 VALUATION OF CONVERTIBLE DEBENTURES	14
9.6 VALUATION OF PARTLY PAID-UP EQUITY SHARES	14
9.7 VALUATION OF INITIAL PUBLIC OFFERING (IPO) ALLOTMENT.....	15
9.8 VALUATION OF QIP (QUALIFIED INSTITUTIONAL PLACEMENT – EQUITY SHARES)	15
10. VALUATION OF FUTURE & OPTIONS	15
11. VALUATION OF SECURITIES LENT UNDER SECURITIES LENDING SCHEME	15
12. VALUATION OF INDIAN DEPOSITORIES RECEIPTS (IDR)	15
13. VALUATION OF INFRASTRUCTURE INVESTMENT TRUST (INVITS) & REAL ESTATE INVESTMENT TRUST (REITS)	16
14. FIXED INCOME AND RELATED INSTRUMENTS	16
14.1 DEBT AND MONEY MARKET INSTRUMENTS OTHER THAN GOVERNMENT SECURITIES.....	16
14.2 VALUATION OF SECURITIES WITH PUT/CALL OPTIONS.....	17
14.3 VALUATION OF GOVERNMENT SECURITIES	17
14.4 VALUATION OF TRI-PARTY REPO (TREPS).....	17
14.5 VALUATION OF REVERSE REPO (INCLUDING CORPORATE REVERSE REPO)	18
14.6 VALUATION OF PERPETUAL BONDS.....	18
14.7 VALUATION OF FIXED DEPOSITS.....	18
14.8 VALUATION OF MUTUAL FUND UNITS	18
14.9 VALUATION OF EXCHANGE TRADED (ETF) UNITS	19
14.10 VALUATION OF INTEREST RATE FUTURES	19
14.11 VALUATION OF OTC DERIVATIVES.....	19
14.12 TREATMENT OF UPFRONT FEES ON TRADES.....	19
14.13 VALUATION OF MONEY MARKET AND DEBT SECURITIES WHICH ARE RATED BELOW INVESTMENT GRADE	19
15. VALUATION OF GOLD INVESTMENTS	20
16. VALUATION OF GOLD MONETISATION SCHEMES:.....	21
17. CORPORATE ACTION	21
17.1 DE-MERGER, MERGER, AMALGAMATION AND SCHEME OF ARRANGEMENT	21
17.2 BUY-BACK OF SECURITIES	22

17.3 STOCK SPLIT/ FACE VALUE CHANGE	22
18. INTER-SCHEME TRANSFER	22
19. USE OF OWN TRADE FOR VALUATION	23
20. WATERFALL APPROACH FOR VALUATION OF MONEY MARKET AND DEBT SECURITIES	23
21. POLICY REVIEW & UPDATE	24
22. REFERENCES	24

1. INTRODUCTION

LIC Mutual Fund Asset Management Limited ("the AMC") is an investment manager to LIC Mutual Fund ("the Fund"). The AMC is responsible for managing the schemes launched by LIC Mutual Fund.

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.

As per Eight Schedule to SEBI Mutual Funds Regulations, 1996 the AMC and the Sponsor of the MF shall ensure the compliance with the "Principle of Fair Valuation" mentioned in the schedule and shall be liable to compensate the affected investors and/or the scheme for any unfair treatment to any investor because of inappropriate valuation. While the amended 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.

1.1 OBJECTIVE

Establish policy and guidelines for valuation of investments held by LIC Mutual Fund Schemes. Valuation of securities held by all LIC Mutual Fund Schemes is done in conformity with these valuation norms and this policy serves as a guiding principle to Fund Accounting team for valuation of securities as per the valuation norms specified by the various circulars issued by SEBI & best practice guidelines issued by "AMFI"

1.2 TARGET AUDIENCE

This policy should be readily accessible to Fund Accounting team and the Investment team. The latest policy should always be disclosed on LIC Mutual Fund's website or any other place where the board may specify to ensure transparency of valuation norms adopted.

2. LIST OF ACRONYMS

Acronym	Full Form
AMC	Asset Management Company
AMFI	Association of Mutual Funds in India
BoD	Board of Directors
G-Sec	Government Security
NSE	National Stock Exchange
InvITs	Infrastructure Investment Trusts
REITs	Real Estate Investment Trusts
SEBI	Securities and Exchange Board of India
T-Bills	Treasury Bills

3. SCOPE AND COVERAGE

The following items 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 BoDs of AMC and Trustee for approval, as appropriate.

All assets held by the Fund shall be consistently valued according to the defined valuation methodology. If the above-defined methodology does not lead to fair valuation of securities / assets, then 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 BoDs of AMC and Trustee 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 BoDs of the AMC.

4. 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 [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 as described in this document. This will ensure that the Valuation Policy is applied to all securities uniformly.

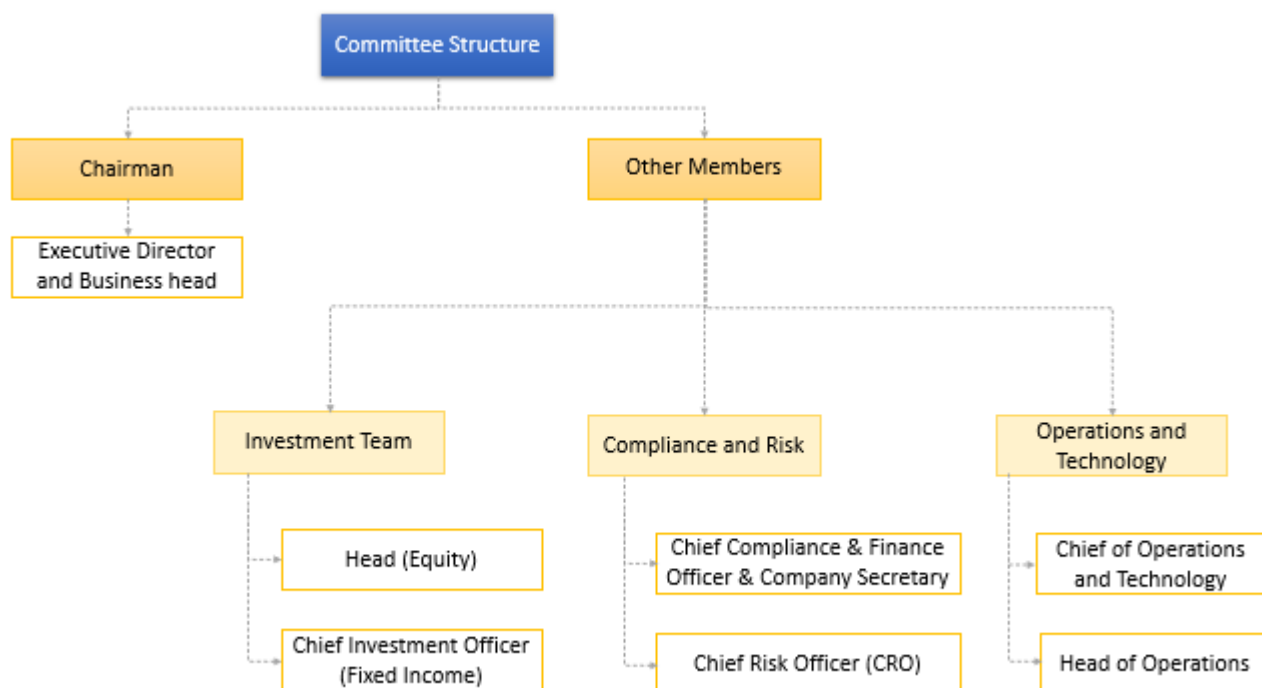
5. EXCEPTIONAL EVENTS

- Exceptional events are events on which dependency 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 will 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 will 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, 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 BoDs 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 LIC Mutual Fund.

6. VALUATION COMMITTEE

The AMC 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.

LIC Mutual Fund's Valuation Committee comprises the following:



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 AMC and Trustee.

The scope of activities / responsibilities of the valuation committee are listed below:

- Reviewing and recommending the Valuation Policy to the BoDs of AMC and Trustee 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 BoDs of AMC and Trustee and appropriate disclosures to the investors.
- Review of regulatory amendments with regards to valuation and implementation of the same subject to approval/ ratification of the BoDs of AMC and Trustee.

7. POLICY REVIEW AND REPORTING

The 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. The Valuation Committee shall update the BoDs of the AMC and Trustee 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 BoDs of AMC and Trustee:

- 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.

8. DEFINITIONS

a. **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:

The aggregate value of trade in such security is less than Rs. 5,00,000; and

The total volume of trade in such security is less than 50,000 shares, in recognized stock exchange in India.

For example, following scenarios does not qualify as thinly traded:

- If the volume of trade is 1,00,000 shares and value is Rs.4,00,000,
- If the volume traded is 40,000 shares but the value of trade is Rs.6,00,000

b. **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.

c. **Unlisted Securities**

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

d. **Recognized Stock Exchange**

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

e. **Primary Stock Exchange**

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

f. **Secondary Stock Exchange**

BSE Ltd. would be considered as secondary stock exchange.

g. **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.

h. **Default Securities**

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 Credit Rating Agency (CRA).

i. **Government Securities**

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

j. **Reporting platforms**

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

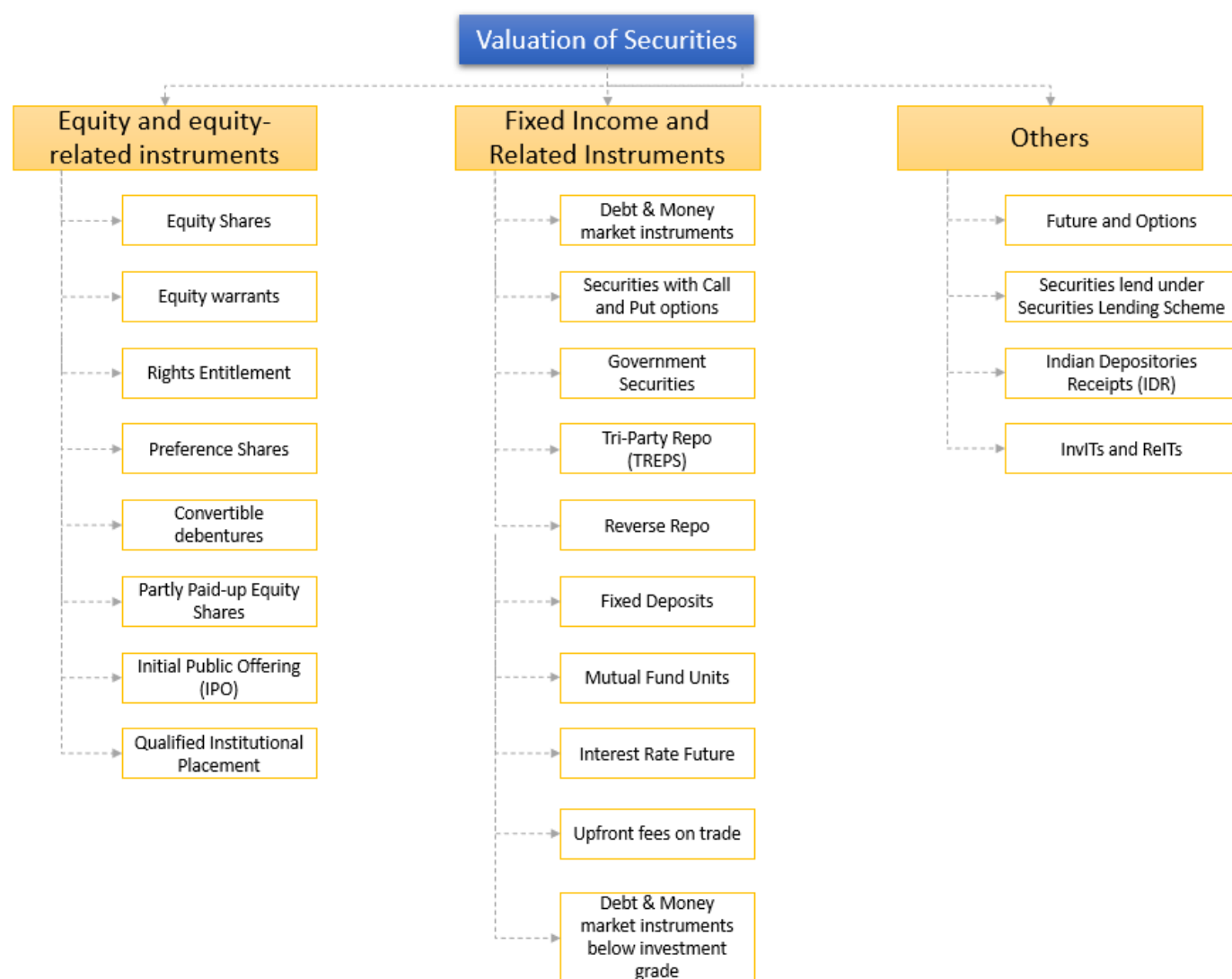
k. **SEBI registered Credit Rating Agency (CRA)**

- 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.

l. **Valuation Agencies**

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

Valuation of Securities



9. VALUATION OF EQUITY AND EQUITY RELATED INSTRUMENT

9.1 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.

9.1.1 TRADED SECURITIES

- i) On a valuation day, traded securities are to be valued at the 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 closing price 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 closing price on the primary stock exchange or any other stock exchange, as the case may be on the earliest previous day may be used provided the 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 to be considered for valuation of securities will be that particular stock exchange i.e., Securities held in ETFs and Index Funds are to be valued at closing price on the stock exchange of the underlying index. E.g., For an Index Fund -Sensex or Sensex ETF, the primary stock exchange will be BSE Ltd.

9.1.2 THINLY TRADED / NON-TRADED SECURITIES

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

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

- i. Net Worth per share = [share capital + reserves (excluding revaluation reserves) – Miscellaneous expenditure and Debit Balance in Profit and Loss A/c] divided by Number of Paid-up Shares.
- ii. Average capitalization 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 capitalization rate (P/E ratio). Earnings per share of the latest audited annual accounts will be considered for this purpose.
- iii. 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 illiquidity so as to arrive at the fair value per share.

9.1.3 UNLISTED SECURITIES

Unlisted Securities shall be valued in "good faith" in accordance with SEBI norms as prescribed below:

- i) Based on the latest available Audited Balance Sheet, Net Worth shall be calculated as lower of (a) and (b) below:
 - a. Net Worth per share = [share capital + free reserves (excluding revaluation reserves) - Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses] / Number of Paid-up Shares.
 - b. 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.
- ii) Average capitalization rate (P/E ratio) for the industry based upon either BSE or NSE data (which shall be followed consistently and changes, if any, noted with proper justification thereof) shall be taken and discounted by 75%. i.e., only 25% of the industry average P/E shall be taken as capitalization rate (P/E ratio). Earnings per share (EPS) of the latest audited annual accounts will be considered for this purpose.
- iii) 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:

- a. All calculation shall be based on audited accounts.
- b. If the latest Balance Sheet of the company is not available within nine months from the close of the year, unless the accounting year is changed, then shares of such companies shall be valued at zero.
- c. If the Net Worth of company is negative, the shares of such companies shall be valued at zero.
- d. In case the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalized earning.
- e. 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.
- f. 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.

9.1.4 VALUATION OF SUSPENDED EQUITY SHARES

- a. 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.
- b. 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.

9.1.5 VALUATION OF ILLIQUID SECURITY

- 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.
- b. 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 recognized as illiquid securities.
- c. Mutual Funds shall not be allowed to transfer illiquid securities among their schemes

9.2 VALUATION OF NON-TRADED 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.

9.3 VALUATION OF RIGHTS ENTITLEMENT

- a. 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:

$$V_r = n/m \times (P_{ex} - P_{of})$$
 where,
 V_r = Value of rights
 n = No. of rights offered
 m = No. of original shares held
 P_{ex} = Ex-rights price
 P_{of} = Rights Offer Price
- b. Ex-right price of underlying security will be considered separately for each valuation day
- c. Incase if the rights offer price is higher than the ex-rights price, value of the rights share is to be taken as zero.
- d. Where the rights are not treated pari passu with the existing shares, suitable adjustment should be made to the value of rights.
- e. 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.
- f. Where it is decided to subscribe the rights, the valuation of rights entitlement will be done as per the guidelines stated in clause (a) to (d) above.
- g. Valuation guidelines related to equity shares would be applicable from the date rights are subscribed.

- h. 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.

9.4 VALUATION OF PREFERENCE SHARES

- a. If traded, then it would be valued as per the valuation guidelines applicable to equity shares.
- b. If not traded, then Intrinsic value will be considered.
- c. 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.
- d. 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.
- e. 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.

9.5 VALUATION OF CONVERTIBLE DEBENTURES

- a. In respect of convertible debentures and bonds, the non-convertible and convertible components shall be valued separately.
- b. The non-convertible component should be valued on the same basis as would be applicable to a debt instrument.
- c. The convertible component should be valued on the same basis as would be applicable to an equity instrument.
- d. If, after conversion the resultant equity instrument is traded pari passu with an existing traded instrument, then 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.

9.6 VALUATION OF PARTLY PAID-UP EQUITY SHARES

- a. If partly paid-up equity shares are traded separately, then they would be valued as per the valuation guidelines applicable to any other listed equity shares.
- b. If 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:
 - i) Value of the underlying fully paid-up equity shares as reduced by the amount of balance call money payable.
 - ii) The value at which it was traded on the earliest previous day may be used provided the date is not more than 30 days prior to valuation date.
- c. Valuation guidelines related to equity shares would be applicable for the valuation of underlying fully paid-up equity shares.
- d. In case the trade price of the partly paid-up equity shares was 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.

9.7 VALUATION OF INITIAL PUBLIC OFFERING (IPO) ALLOTMENT

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

9.8 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.

10. VALUATION OF FUTURE & OPTIONS

On the valuation day, Future & Options will be valued at the settlement price, published by the NSE. If the settlement price is not available, then closing price for the security will be considered for the valuation.

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

- $\text{MTM Gain/Loss} = \text{Current day settlement or Closing price} - \text{Previous day settlement or Closing price}$
- If scrip is purchased first time, then it is a Current day settlement or Closing price - Weighted Average Price (WAP)

11. 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.

12. 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.

13. VALUATION OF INFRASTRUCTURE INVESTMENT TRUST (INVITS) & REAL ESTATE INVESTMENT TRUST (REITS)

- a. On a valuation day, traded units of InvIT/REITs are to be valued at the last quoted closing price on the primary stock exchange.
- b. When on a particular valuation day, units of InvIT/REITs have not been traded on the primary stock exchange; the value at which it is traded on secondary stock exchange will be used.
- c. 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.
- d. 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.
- e. 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.

14. FIXED INCOME AND RELATED INSTRUMENTS

14.1 DEBT AND MONEY MARKET INSTRUMENTS OTHER THAN GOVERNMENT SECURITIES

Classification of Debt and Money market Instruments:

- a. Debt instruments are Coupon bearing securities like Non-Convertible Debentures (NCD), Bonds, etc.
- b. 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 Securitized Debt / Pass Through Certificate (PTC) etc.

Valuation of Debt and Money market Instruments and Bill Rediscounting

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

14.2 VALUATION OF SECURITIES WITH PUT/CALL OPTIONS

The option embedded securities would be valued as follows:

a. 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.

b. 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.

c. 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:

- i) 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.
- ii) 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
- iii) 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.

14.3 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.

14.4 VALUATION OF TRI-PARTY REPO (TREPS)

a. 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.

b. TREPS with residual maturity of up to 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.

14.5 VALUATION OF REVERSE REPO (INCLUDING CORPORATE REVERSE REPO)

a. 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.

b. Reverse Repo with residual maturity of up to 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 on reverse repo would be considered for NAV calculation.

14.6 VALUATION OF PERPETUAL BONDS

Pursuant to SEBI circular dated March 10, 2021, read with SEBI circular dated March 22, 2021, the deemed residual maturity for the purpose of valuation of all existing as well as new bonds issued under Basel III framework shall be as below:

Time period	Deemed Residual Maturity of Basel III AT-1 bonds (Yrs.)	Deemed Residual Maturity of Basel III Tier 2 Bonds (Yrs.)
Till March 31, 2022	10	10 years or Contractual Maturity whichever is earlier
1 st Apr'22 – 30 th Sep'22	20	Contractual Maturity
1 st Oct'22 – 31 st Mar' 23	30	Contractual Maturity
1 st Apr'23, onwards	100*	Contractual Maturity

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

Macaulay Duration for bonds issued under Basel III framework shall be calculated based on the deemed residual maturity as mentioned in the above table.

14.7 VALUATION OF FIXED DEPOSITS

Fixed Deposits will be valued at cost plus accrual basis.

14.8 VALUATION OF MUTUAL FUND UNITS

Units listed and traded would be valued at the closing traded price on the National Stock Exchange (NSE)/ Bombay Stock Exchange (BSE) on the valuation day. If not traded on the primary stock exchange (NSE), the closing price on the other stock exchange will be considered.

Unlisted units, to be listed units, or units listed but non-traded, would be valued at the Net Asset Value (NAV) as on the valuation date

14.9 VALUATION OF EXCHANGE TRADED (ETF) UNITS

ETF Units would be valued at the closing traded price on the National Stock Exchange (NSE)/ Bombay Stock Exchange (BSE) on the valuation day. If not traded on the primary stock exchange (NSE), the closing price on the other stock exchange will be considered.

14.10 VALUATION OF INTEREST RATE FUTURES

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

14.11 VALUATION OF OTC DERIVATIVES

Prices for all OTC derivatives and market linked debentures shall be obtained from valuation agencies.

14.12 TREATMENT OF UPFRONT FEES ON TRADES

- a. 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.
- b. 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.
- c. For the purpose of accounting, such upfront fees will be reduced from the cost of the investment in the scheme that made the investment.
- d. In case upfront fees are received across multiple schemes, such upfront fees will be shared on a pro-rata basis across such schemes.

14.13 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.

15. VALUATION OF GOLD INVESTMENTS

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 1 kg gold of 0.995, subject to the following:

- (a) adjustment for conversion to metric measure 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 the 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.

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). “If on any day the LBMA AM fixing or RBI reference rate is not available due to holiday, then the immediately previous day’s prices are applied for the purpose of calculating the value of gold.

16. VALUATION OF GOLD MONETISATION SCHEMES:

Principal investment in Gold Monetisation Schemes (G M S) will be valued at the price of physical gold, while interest income will be valued on accrual basis.

17. CORPORATE ACTION

17.1 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 more than 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, therefore.

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.

17.2 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.

17.3 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.

18. INTER-SCHEME TRANSFER

1. Inter-scheme Transfers of Equity and Equity Related Instruments

- a. Any Inter-scheme 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 affected.
- b. 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.

2. Inter-scheme 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.](#)

19. 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.

20. 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.

21. POLICY REVIEW & UPDATE

The Policy should be periodically reviewed (once a year) by the Valuation Committee.

22. REFERENCES

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

- [SEBI | Risk Management Framework \(RMF\) for Mutual Funds](#) Circular no. SEBI/HO/IMD/IMD-1 DOF2/P/CIR/2021/630 dated September 27, 2021
- EIGHTH SCHEDULE of [SEBI Mutual Fund Regulations, 1996](#)
- SEBI [Master Circular for Mutual Funds](#) Circular no. SEBI/HO/IMD/DF2/CIR/P/2020/156 dated August 24, 2020.
- [SEBI Circular](#) No. MFD/CIR/ 8 / 92 / 2000 dated September 18, 2000
- [SEBI Circular](#) No. SEBI/HO/IMD/DF4/CIR/P/2021/034 dated 22nd March 2021.