

SECURITIES AND EXCHANGE BOARD OF INDIA

Mittal Court, B Wing, First Floor,
224, Nariman Point, Mumbai 400 021

MFD/CIR/14 /088 / 2001

March 28, 2001

All Mutual Funds Registered with SEBI/
Unit Trust of India

Dear Sirs,

As you are aware, SEBI issued guidelines for the valuation of securities and identification and provisioning for non-performing assets (debt securities) vide circular no MFD/CIR/8/92/2000 dated September 18, 2000.

Association of Mutual Funds in India (AMFI) has made a representation for certain modification in the guidelines. After examining the matter, the following modifications have been made in the guidelines issued vide aforesaid circular:

Guidelines For Valuation of Securities

1. Thinly Traded Equity / Equity Related Securities

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

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

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

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

2. Thinly Traded Debt Security

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

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

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

3. Non-Traded / Thinly Traded Equity/ Equity Related Securities

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

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

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

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

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

instead of purchase cost. All other non traded Non Government debt instruments shall be valued using the method suggested in (ii)(b) hereof".

5. Government Securities

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

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

Reclassification of assets

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

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

Yours faithfully,

P. K. NAGPAL
GENERAL MANAGER
MUTUAL FUNDS DEPARTMENT
