



CIRCULAR

SEBI/HO/IMD/DF4/CIR/P/2019/41

March 22, 2019

**All Mutual Funds/ Asset Management Companies (AMCs)/
Trustee Companies/ Boards of Trustees of Mutual Funds/
Association of Mutual Funds in India (AMFI)**

Sir / Madam,

Sub: Valuation of money market and debt securities

1.0 Valuation of money market and debt securities of short term maturity:

1.1 Kindly refer to SEBI circulars IMD/CIR No.16/ 193388/2010 dated February 02, 2010 read with Cir/IMD/DF/6/2012 dated February 28, 2012. The aforementioned SEBI circulars currently permit amortization based valuation of non-traded money market and debt securities, including floating rate securities, with residual maturity of upto 60 days. In order to make the existing valuation practices for aforesaid securities more reflective of the realizable value, the following has been decided:

1.1.1 The residual maturity for amortization based valuation as referred to in SEBI circular dated February 28, 2012 shall be reduced from existing 60 days to 30 days.

1.1.2 Further, the amortized price shall be compared with the reference price which shall be the average of the security level price of such security as provided by the agency(ies) appointed by AMFI for said purpose (hereinafter referred to as “valuation agencies”). The amortized price



shall be used for valuation only if it is within a threshold of $\pm 0.025\%$ of the reference price. In case of deviation beyond this threshold, the price shall be adjusted to bring it within the threshold of $\pm 0.025\%$ of the reference price.

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

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

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

2.1.2 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.

2.1.3 Consideration of traded price for valuation:

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



for valuation till the valuation price is determined by the valuation agencies.

- 2.1.3.2 In case of trades after the valuation price is computed by the valuation agencies as referred above and where the traded price is lower than such computed price, such traded price shall be considered for the purpose of valuation and the valuation price may be revised accordingly.
- 2.1.3.3 The trades referred above shall be of a minimum size as determined by valuation agencies.
- 2.1.4 AMCs may deviate from the indicative haircuts and/or the valuation price for money market and debt securities rated below investment grade provided by the valuation agencies subject to the following:
- 2.1.4.1 The detailed rationale for deviation from the price post haircuts or the price provided by the valuation agencies shall be recorded by the AMC.
- 2.1.4.2 The rationale for deviation along-with details such as information about the security (ISIN, issuer name, rating etc.), price at which the security was valued vis-a-vis the price post haircuts or the average of the price provided by the valuation agencies (as applicable) and the impact of such deviation on scheme NAV (in amount and percentage terms) shall be reported to the Board of AMC and Trustees.
- 2.1.4.3 The rationale for deviation along-with details as mentioned at para 2.1.4.2 above shall also be disclosed to investors. In this regard, all AMCs shall immediately disclose instances of deviations under a separate head on their website. Further, the total number of such instances shall also be disclosed in the monthly and half-yearly



portfolio statements for the relevant period along-with an exact link to the website wherein the details of all such instances of deviation are available.

3.0 Applicability:

- 3.1 Para 1.0 shall be applicable within 90 days from date of issuance of the circular.
- 3.2 With respect to para 2.0, a timeline of 90 days from date of issuance of the circular is provided for valuation agencies to develop necessary systems to provide prices of debt and money market securities rated below investment grade. However, in case of a credit event, till the system is in place, the provisions of paras 2.1.2., 2.1.3.1, 2.1.3.3 and 2.1.4 above shall be applicable.
- 4.0 This circular is issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, read with the provisions of Regulation 77 of SEBI (Mutual Funds) Regulations, 1996, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

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