DEPUTY GENERAL MANAGER
INVESTMENT MANAGEMENT DEPARTMENT

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

To:

All Mutual Funds, Asset Management Companies (AMCs)
and Association of Mutual Funds in India (AMFI)

Sir / Madam**,**

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

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

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

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

a. In case of rated debt securities

Category	**Current (as per Circular dated October 18, 2008)**		**Proposed**	
	+	-	+	-
Rated instruments with duration upto 2 years	500 bps	150 bps	100 bps	50 bps
Rated instruments with duration over 2 years	400 bps	100 bps	75 bps	25 bps

b. In case of unrated debt securities

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

Further, it has been decided that

- For valuation of securities purchased after the issuance of circular, the discretionary mark up or down limit, as detailed above, should be applied.

- For cases where on the date of this circular, the increased discretionary mark up or down limit is being used, it should be brought back to the proposed levels as detailed above within a period of two months.

- Chief Executive Officer (whatever his designation may be) of the Asset Management Company shall give prior approval to the use of discretionary mark up or down limit.

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

Yours faithfully,

Ruchi Chojer