Valuation Policy

Version 20 – Oct 2023

ICICI PRUDENTIAL MUTUAL FUND

VALUATION POLICY AND PROCEDURES

A. Background

SEBI has amended Regulation 47 of SEBI (Mutual Funds) Regulations, 1996 ('Regulations') and the Eighth schedule of Regulations, relating to valuation of Investments on February 21, 2012 to introduce over-riding principles in the form of "Principles of fair valuation".

Prior to this amendment, Eighth schedule and various circulars issued from time to time provided detailed guidelines on valuation of traded securities, non-traded securities, thinly traded securities etc.

The amended Regulations require that mutual funds shall value their investments in accordance with principles of fair valuations so as to ensure fair treatment to all investors i.e. existing investors as well as investors seeking to subscribe or redeem units.

It further prescribes that the valuation shall be reflective of the realizable value of securities and shall be done in good faith and in true and fair manner through appropriate valuation policies and procedures approved by the board of the asset management company ('AMC').

The amendment also states that in case of any conflict between the principles of fair valuation and valuation guidelines as per Eighth schedule and circulars issued by SEBI, the principles of fair valuation shall prevail.

Additionally SEBI has vide its circular no. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019 (the Circular), introduced changes to the existing provisions for valuation of money market and debt securities by way of partial modification to the existing provisions, deletion of certain provisions and introduction of new provisions. These changes have been introduced in order to align the guidelines with the best market practices and improve the robustness of valuation of the securities.

B. Valuation methodologies

- Mutual Fund shall value its investments in accordance with the overarching principles of fair valuation. The methodologies for each type of securities held by the schemes are provided in **Annexure I**. The above methodologies also take into account the guidelines stipulated under Regulations.

- In case of any conflict between the principles of Fair Valuation and valuation guidelines issued under Regulations, the Principles of Fair Valuation shall prevail.

- Investment in any new type of security shall be made only after establishment of the valuation methodology for such security with the approval of the Board of the AMC.

C. Inter-scheme transfers

- Transfer of securities through inter-scheme shall be at market price or fair valuation price.
- The methodology to determine the fair valuation of securities which are intended to be transferred from one scheme to another is included in **Annexure II.**

D. Waterfall Mechanism for valuation of money market, debt and Government securities (Refer Annexure III)

E. Exceptional Events

The following types of events could be classified as exceptional events where current market information may not be available / sufficient for valuation of securities:

- Major policy announcements by the Central Bank, the Government or the Regulator.
- Natural disasters or public disturbances that force the markets to close unexpectedly.
- Significant volatility in the capital markets.
- Significant sale (more than 40% of the AUM) of securities in any open ended scheme other than interval schemes.
- Any other event perceived to be exceptional by the Valuation Committee which is headed by the Managing Director.

In case of exceptional events, the Valuation Committee of the AMC shall assess the situation and advise appropriate method of valuation for the impacted securities. Such decision of Valuation Committee shall subsequently/ suitably be reported to the AMC and Trust Boards.

F. Deviations

Investments shall be valued as per the methodologies mentioned in this Policy, which aim to enable true and fair valuation of securities. However, if the valuation of any particular asset/security does not result in fair/ appropriate valuation or under exceptional circumstances, the Valuation Committee would have the right to deviate from the established policies in order to value the asset/security at fair/appropriate value.

In case the AMC decides to deviate from the valuation price given by the valuation agencies:

- the detailed rationale for each instance of deviation shall be recorded by the AMC;
- the instances of deviation and the rationale along-with details such as information about the security (ISIN, issuer name, rating etc.), price at which the security was valued and the impact of such deviation on scheme NAV (in amount and percentage) will be informed to the Boards of the AMC & Trust Company; and
- such rationale along with the details mentioned above will be disclosed immediately and prominently on the website of the AMC under a separate head.

G. Periodic Review

The Valuation policy shall be reviewed at least annually and any modification shall be approved by the AMC and Trustee Boards. The Valuation Policy shall also be reviewed by Independent Auditors at least once in a Financial Year to ensure the appropriateness of the valuation methodologies.

H. Conflict of Interest

If any situation arises that leads to conflict of interest, the same shall be raised to the Valuation Committee and the Committee shall endeavor to resolve the same such that the valuation provides for fair treatment to all investors including existing and prospective investors.

I. Disclosure and Record keeping

Policy document should be updated in Scheme Information Document (SID) / Statement of Additional Information (SAI), website and other documents as prescribed by the SEBI Regulations and guidelines.

All the documents which form the basis of valuation including inter-scheme transfers (the approval notes and supporting documents) should be maintained in electronic or physical form. These records will be preserved in accordance with the norms prescribed by the SEBI Regulations and guidelines.

Annexure I

The revised policy is to be implemented from 1st July 2012 and will stand modified to the extent it is inconsistent with any regulatory pronouncements thereafter:

A. EQUITY AND RELATED SECURITIES

Assets	Methodology
Traded Equity and Equity Related securities and Preference Shares	Traded securities shall be valued at the last quoted closing price on the principal stock exchange. The AMC has selected NSE as principal stock exchange, for all schemes other than Index based Funds/ETF, which invest in domestic equity and equity related securities/ preference shares. For index based schemes/ETF the Principal stock exchange would be the exchange where the underlying benchmark index has been set up. If no trade is reported on the principal stock exchange on a particular valuation date, traded securities shall be valued at the last quoted closing price on other recognised stock exchange. For this purpose only NSE and BSE shall be considered as the recognized stock exchanges. When a security is not traded on any stock exchange on a particular valuation day, the value at which it was traded on the selected stock exchange or any other stock exchange, as the case may be, on the earliest previous day shall be used provided such date is not more than thirty days prior to the valuation date. In case the security is traded in periodic call auction session, the security shall be valued as per last quoted closing price of such periodic call auction session.
Thinly Traded / Non-Traded	When a security(other than Futures & Options) is not traded on any recognized stock exchange for a period of thirty days prior to the valuation date, the scrip must be treated as a 'non-traded' security Futures & Options are considered as Non-Traded, when such Futures & Options are not traded on respective stock exchange as on valuation date. Equity / equity-related security(other than Futures & Options) shall be considered to be thinly traded when the value of the trades of that security in a month is less than Rs. 5 lacs by value and the total volume of the trades in that security is less than 50,000 shares. In order to determine whether a security is thinly traded, the volumes traded in

Assets	Methodology
	NSE and BSE shall be considered.
Non-Traded / Thinly Traded Equity Shares:	Thinly Traded / Non-traded equity shares shall be valued as below: (a) Based on the latest available Balance Sheet, net worth shall be calculated as follows: Net Worth per share = [share capital + reserves (excluding revaluation reserves) – Misc. expenditure and Debit Balance in P&L A/c] Divided by number of Paid up Shares. (b) Average capitalisation rate (P/E ratio) for the industry based on 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 shall be considered for this purpose. (c) 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 ill-liquidity so as to arrive at the fair value per share. (d) If the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalized earning. (e) Where 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. (f) Where 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 net 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 on the date of valuation shall be taken into account. In order to ensure fair valuation, the AMC, after providing suitable justification to and due approval from the Valuation Committee, may decide to value non-traded/thinly traded equity share at a price lower than the value derived using the aforesaid methodology.

Assets	Methodology
Unlisted Equity shares:	Unlisted equity shares of a company shall be valued on the basis of the valuation principles given below: (a) Based on the latest available audited balance sheet, net worth shall be calculated as lower of (i) and (ii) below: i. Net worth per share = [share capital plus free reserves (excluding revaluation reserves) minus miscellaneous expenditure not written off, deferred revenue expenditure, intangible assets and accumulated losses] divided by Number of Paid up Shares. ii. After taking into account the outstanding warrants and options, net worth per share shall again be calculated and shall be = [share capital plus consideration on exercise of Option/Warrants received/receivable by the Company plus free reserves (excluding revaluation reserves) minus miscellaneous expenditure not written off, 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/exercise of outstanding Warrants and Options} The lower of (i) and (ii) above shall be used for calculation of net worth per share and for further calculation in (c) below. (b) Average capitalisation rate (P/E ratio) for the industry based on 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. (c) 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 methodology for valuation shall be subject to the following conditions: - All calculations as aforesaid shall be based on audited accounts. - In case where 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 the company is negative, the share would be marked down to zero. - In case the EPS is negative, EPS value for that year

Assets	Methodology
	shall be taken as zero for arriving at capitalized 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 should be valued in accordance with the procedure as mentioned above on the date of valuation. In order to ensure fair valuation, the valuation committee of the AMC may decide to value an unlisted equity share at a price lower than the value derived using the aforesaid methodology.
Valuation of Partly Paid-up Equity Shares	Valuation of Partly Paid-up Equity Shares **(a)** **<u>Traded Partly Paid-up Equity Shares</u> -** In case the partly paid-up equity shares are traded in the market separately, the partly paid-up equity shares would be valued at last quoted closing price. (like any other Equity instrument). **(b)** **<u>Non-Traded /Suspended /Thinly Traded Partly Paid-up Equity Shares</u>** (i) Such partly paid-up equity shares shall be valued at its last quoted closing price provided the date of last quoted closing price is not more than 30 days prior to the valuation date. (ii) In the event the last quoted closing price is more than 30 days prior to the valuation date, the partly paid-up equity shares shall be valued at value of the underlying fully paid-up equity shares as reduced by the amount of balance call money payable on partly paid-up equity shares. Suitable illiquidity discount, if deemed necessary, shall be applied with approval from the Valuation Committee. **(c)** **<u>Unlisted Partly Paid-up Equity Shares</u>** Such partly paid-up equity shares shall be valued at value of the underlying fully paid-up equity shares as reduced by the amount of balance call money payable. Suitable illiquidity discount, if deemed necessary, shall be applied with approval from Valuation Committee. Further, after reviewing the valuation of such partly paid-up equity shares, if the prices as per the above methodology does not represent fair price or in case necessary details to value the partly paid-up equity shares are not available, the Valuation Committee will determine fair value based on available information.

Assets	Methodology
Equty and Equity related Securities awaiting listing (Merger/Demerger)	Valuation of merged entity shall be arrived at based on the previous day's last quoted closing price of the respective companies prior to merger. In case of demerger, where the resulting company is not immediately listed/ traded, valuation price shall be worked out by using previous day's last quoted closing price before demerger of demerged company as reduced for opening price/special pre-opening session(SPOS)price (wherever such SPOS session is conducted)of the demerged company. If value of the share of demerged company is equal or in excess of the value of the pre de merger share, then the resulting company share is to be valued at zero. Where none of the demerged company and resulting company is immediately listed/ traded, the shares of new companies shall be valued by allocating combined valuation existing as on date of the corporate action to the new companies after taking into consideration the pro-rata shares allotted and other relevant factors as per the decision of the Valuation Committee. Further, after reviewing the valuation as listed above, if the prices as per the above methodology does not represent fair price or in case necessary details to value the same are not available, the Valuation Committee will determine fair value based on available information.
Equity and Equity related securities under lock-in period / pending listing	These shall be valued based last quoted closing price of security after applying suitable discount for illiquidity. The Valuation Committee shall decide on the illiquidity discount to be applied, on a case to case basis.
Suspended equity Securities	In case trading in an equity security is suspended up to 30 days, then the last quoted closing price should be considered for valuation of that security. If an equity security is suspended for more than 30 days, then the Valuation Committee shall decide the valuation norms to be followed and such norms should be documented and recorded.
Investments in Equity or Equity related Securities proposed to be listed (Pre-Public Offering):	<u>Pending listing</u> Such securities shall be valued as below: (i) at cost, upto 2 months from the date of allotment. (ii) Valued as unlisted equity shares after 2 months.

Assets	Methodology
Initial Public Offering ('IPO') application	These shall be valued as below : (i) Prior to allotment – at Bid Price. (ii) Post allotment but awaiting listing – at allotment price

Value of non traded "Rights" Entitlement	- Until they are traded, the value of the 'right' entitlement should be valued based on difference between ex-rights price of underlying security and rights offer price as detailed below: Vr = n/m x (Pex - Pof) Where Vr = Value of rights n = No. of rights offered m = No. of original shares held Pex = Ex-rights price Pof = Offer price - Where the rights are not treated pari passu with the existing shares, suitable adjustment should be made to the value of rights. Where it is decided not to subscribe for the rights but to renounce them and renunciations are being traded, the rights should be valued at the renunciation value. - In case the rights offer price is greater than the ex-rights price, the value of the rights share is to be taken as zero.
Non-traded preference shares	The value of convertible preference shares would be arrived based on the intrinsic value of the preference shares considering the conversion ratio as adjusted for illiquidity discount and other relevant factors as applicable as on the valuation date with the approval of Valuation Committee. Non- convertible preference shares are more akin to debt and to be valued as debt securities at a applicable market yield for the similar duration and rating as approved by the Valuation Committee. In case prices of Non –traded preference shares are available from agency(ies) appointed by AMFI, then such Non–traded preference shares shall be valued at average of prices provided by AMFI-appointed agency(ies). Further, after reviewing the valuation as listed above, if the prices as per the above methodology does not represent fair price or in case necessary details to value the same are not available, the Valuation Committee will determine fair value based on available

Non-traded Convertible debentures	In respect of convertible debentures and bonds, the non-convertible and convertible components shall be valued separately. The non-convertible component should be valued on the same basis as would be applicable to a debt instrument. The convertible component should be valued on the same basis as would be applicable to an equity instrument. 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 for 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. The appropriate discount applied shall be approved by the Valuation Committee. The valuation of optional conversion shall be determined as follows - - If the option to exercise rests with the issuer, the lower of the value when exercised or value when not exercised shall be taken. - If the option to exercise rests with the investor, the higher of the value when exercised and when not exercised shall be taken. In case prices of Non –traded Convertible debentures are available from agency(ies) appointed by AMFI, such Non–traded Convertible debentures shall be valued based on average of prices provided by AMFI appointed agency(ies). Further, after reviewing the valuation as listed above, if the prices as per the above methodology does not represent fair price or in case necessary details to value the same are not available, the Valuation Committee will determine fair value based on available information.

Assets	Methodology
Non-Traded 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 after applying suitable discount for illiquidity.
Non-traded Future and Options	Non Traded future and options are valued based on settlement price / any other equivalent price provided by the respective stock exchange.
Listed Foreign Securities (including ADR / GDR, units of overseas mutual funds and Index Fund, Exchange Traded Funds (ETFs) listed on overseas stock exchange etc.)	**These shall be valued as below:** **(i) Traded Securities:** These shall be valued based on the last quoted closing prices at the Overseas Stock Exchange on which the respective securities are listed. However, the AMC shall select the appropriate stock exchangein case a security is listed on more than one stock exchange and the reasons for the selection will be recorded in writing. Any subsequent change in the reference stock exchange used for valuation will be necessarily backed by reasons for such change being recorded in writing by the AMC. However, in case of extreme volatility in other markets post the closure of the relevant markets, the AMC shall value the security at suitable fair value. - When on a particular valuation day, a security has not been traded on the selected stock exchange; the value at which it is traded on <u>another stock exchange*</u> or last quoted closing price on selected stock exchange or any other stock exchange, as the case may be, shall be used provided such date is not more than thirty days prior to the valuation date. <u>*(only the stock exchange(s) of the country where the securities were purchased will be considered while considering any other stock exchange.</u> - On valuation date, all assets and liabilities in foreign currency shall be valued in Indian Rupees at the RBI reference rate as at the close of banking hours on the relevant business day in India. If required the AMC may change the source for

Assets	Methodology
	determining the exchange rate. **(ii) Unlisted/ Non Traded Foreign securities** **a. Unlisted**/Non traded foreign securities shall be valued by AMC at fair value after considering relevant factors on case to case basis. **b. Unlisted**/Non-traded ADR /GDRs shall be valued after considering prices/ issue terms of underlying security. Valuation committee shall decide the appropriate discount for illiquidity. **c.** Units of Unlisted Overseas Mutual Fund would be valued at their last Published net asset value (NAV) as on the valuation date.

B. DEBT, MONEY MARKET AND GOVERNMENT SECURITIES

i. Valuation of Debt and Money market Securities

Assets	Methodology
Debt and Money market Securities	All the debt and money market securities, irrespective of residual maturity, shall be valued based on average of security level prices as provided by the agency(ies) appointed by AMFI. Where any security is purchased by any scheme of Mutual Fund and the security level price from the agency(ies) appointed by AMFI is not available on that day, such security shall be valued at weighted average purchase yield on that day and till the day preceding the next business day. In case necessary details to value debt and money market securities are not available, the Valuation Committee will determine fair value based on available information.

ii. Valuation of Government Securities

Assets	Methodology
Government Securities	All Government securities (including T-bills), irrespective of residual maturity, shall be valued based on average of security level prices as provided by the agency(ies) appointed by AMFI. In case necessary details to value government securities (including T-bills) are not available, the Valuation Committee will determine fair value based on available information.

iii. Debt and Money Market Securities rated below investment grade:

All money market and debt securities which are rated below investment grade shall be valued at the price provided by agency(ies) appointed by AMFI.

From the date of the credit event till such time the agency(ies) appointed by AMFI 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 agency(ies).

Where such securities are traded (as per the minimum lot size determined by the agency(ies) appointed by AMFI) during the interim period from the date of the credit event and receipt of valuation price and if such trade price is lower than the price post standard hair cut then the traded price will be considered for such valuation till valuation price is determined by the agency(ies) appointed by AMFI.

In case of trades after the valuation price is computed by the agency(ies) appointed by AMFI 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.

The AMC may deviate from the indicative haircuts and/or the valuation price for money market and debt securities rated below investment grade provided by the agency(ies) appointed by AMFI by recording detailed rationale for such deviation with the approval of Valuation Committee.

While valuing debt, government and money market securities, following additional points would be considered:

Assets	Methodology
Valuation of securities with Put/Call Options	Securities with call option: Securities with call option shall be valued based on average of prices provided by the agency(ies) appointed by AMFI. Securities with put option: Securities with put option shall be valued based on average of prices provided by the agency(ies) appointed by AMFI. Any put option inserted subsequent to the issuance of the security shall not be considered for the purpose of the valuation and original terms of the issue will be considered for valuation. Securities with both Put and Call option on the same day: Only securities with Put and call options on same day and having the same put and call option price (as per original terms of issue), shall be deemed to mature on such put/call date and shall be valued accordingly.
Bank Fixed Deposit	Valued at Cost
TREPS / Reverse Repo (including Corporate Bond Repo)	(i) with residual maturity of up to 30 days: shall be valued based on amortization on a straight-line basis to maturity, from a. cost or b. last valuation price(where the original maturity is more than 30 days) as applicable. (ii) with residual maturity of over 30 days: shall be valued based on average of security level prices as provided by the agency(ies) appointed by AMFI. Where any scheme of Mutual Fund has purchased such securities and the security level price from the agency(ies) appointed by AMFI is not available on that day, such securities shall be valued at weighted average purchase yield on that day and till the day preceding the next business day. In case the prices are not available from the agency(ies) appointed by AMFI for days other than as covered in (ii) above or where necessary details to value such securities are not available, the Valuation Committee will determine

Further, after reviewing the valuation of the securities, if the prices as per the above methodology does not represent fair price then the same may be ignored and the valuation in such cases would be carried out based on input from the fund management team, duly approved by the Valuation Committee.

OTHER SECURITIES

Assets	Methodology
Market Linked Debentures:	Shall be valued based on average of security level prices as provided by the agency(ies) appointed by AMFI. Further, after reviewing the valuation of such Security, if the prices as per the above methodology does not represent fair price or in case necessary details to value the same are not available, the Valuation Committee will determine fair value based on available information.
Interest Rate Swap (IRS) / & other OTC derivatives :	Shall be valued based on average of prices as provided by the agency(ies) appointed by AMFI. Where any IRS is purchased/entered by any scheme of Mutual Fund and the price from the agency(ies) appointed by AMFI is not available on that day, such IRS shall be valued, at net present value on that day and till the day preceding the next business day on the basis of expected future cash flows. Future cash flows for IRS contract will be computed daily based as per terms of contract and discounted by suitable OIS rates available on Reuters/ Bloomberg/ any other provider as approved by valuation Committee. Further, after reviewing the valuation of IRS/other OTC derivatives, if the prices as per the above methodology does not represent fair price or in case necessary details to value the same are not available, the Valuation Committee will determine fair value based on available information.
Interest Rate Futures	**Interest Rate Futures(IRF)-** **Traded-**The exchange traded Interest Rate Futures shall be valued based on the last quoted closing price on the stock exchange. **Non-Traded -** Non Traded IRF shall be valued based on settlement price / any other equivalent price provided by the stock exchange.

Assets	Methodology
Gold of 0.995 fineness	The gold acquired by the scheme is in the form of standard bars and its value as on a particular day is determined as under: a) The London Bullion Market Association's (LBMA) AM fixing price per troy ounce would be considered. b) The Cost, Insurance, Freight premium, LBMA fixing charges and other charges, as applicable, shall be added to the above LBMA price as determined above. c) The value arrived at based on (a) and (b) above shall then be converted to the equivalent price for 1 kilogram gold of 0.995 fineness by applying the conversion factor. d) The RBI reference rate shall be applied to convert the price from US dollars to Indian Rupees. e) Statutory taxes and levies, as applicable from time to time, shall be added to arrive at the final landed price of gold after adjusting for eligible input tax credit. If on any day the LBMA AM fixing or RBI reference rate is not available due to holiday or any other reason, then the immediately previous day's prices shall be applied for the purpose of calculating the value of gold.
Gold of 0.999 fineness	The gold acquired by the scheme is in the form of standard bars and its value as on a particular day is determined as under: a) The London Bullion Market Association's (LBMA) AM fixing price per troy ounce would be considered. b) The Cost, Insurance, Freight premium, LBMA fixing charges and other charges, as applicable, shall be added to the above LBMA price as determined above. c) The value arrived at based on (a) and (b) above shall then be converted to the equivalent price for 1 kilogram gold of 0.999 fineness by applying the conversion factor. d) The RBI reference rate shall be applied to convert the price from US dollars to Indian Rupees. e) Statutory taxes and levies, as applicable from time to time, shall be added to arrive at the final landed price of gold after adjusting for eligible input tax credit. If on any day the LBMA AM fixing or RBI reference rate is not available due to holiday or any other reason, then the immediately previous day's prices shall be applied for the purpose of calculating the value of gold.

Assets	Methodology
Silver of 0.999 fineness	The silver acquired by the scheme is in the form of standard bars and its value as on a particular day is determined as under: a) The London Bullion Market Association's (LBMA) AM fixing price per troy ounce would be considered. b) The Cost, Insurance, Freight premium, LBMA fixing charges and other charges, as applicable, shall be added to the above LBMA price as determined above. c) The value arrived at based on (a) and (b) above shall then be converted to the equivalent price for 1 kilogram silver of 0.999 fineness by applying the conversion factor. d) The RBI reference rate shall be applied to convert the price from US dollars to Indian Rupees. e) Statutory taxes and levies, as applicable from time to time, shall be added to arrive at the final landed price of silver after adjusting for eligible input tax credit. If on any day the LBMA AM fixing or RBI reference rate is not available due to holiday or any other reason, then the immediately previous day's prices shall be applied for the purpose of calculating the value of silver.
Units of Mutual Fund (domestic)	**Traded:** Traded units of mutual fund shall be valued based on the last quoted closing price on the stock exchange. **Non Traded:** If units are not traded on a day the same shall be considered as non-traded units. Non traded units shall be valued based on latest declared NAV per unit of respective underlying schemes.
Units of Corporate Debt Market Development Fund, an Alternative Investment Fund ("AIF")	Units of Corporate Debt Market Development Fund (CDMDF), an Alternative Investment Fund (AIF) shall be valued based on the latest Net Asset Value ("NAV") per unit declared by Investment Manager of CDMDF.

Assets	Methodology
Units of InvITs / ReITs	**I. Allotted but Listing awaited** (i) Valuation of units of InvIT and REIT post allotment but awaiting listing- at allotment price. **II. Listed and Traded/Non- Traded** a) Where units of InvIT and REIT are listed but not traded after initial listing, valuation will be determined by the Valuation Committee based on the principles of fair valuation. b) Valuation of units of InvIT and REIT will be based on the last quoted closing price on the principal stock exchange where such security is listed. The AMC has selected NSE as principal stock exchange, for all schemes other than Index based Funds/ETF. For index based schemes/ETF, the Principal stock exchange would be the exchange where the underlying benchmark index has been set up. If no trade is reported on the principal stock exchange on a particular valuation date, units of InvIT and REIT shall be valued at the last quoted closing price on other recognised stock exchange. For this purpose only NSE and BSE shall be considered as the recognized stock exchanges. c) When units of InvIT and REIT is not traded on any stock exchange on a particular valuation day, the value at which it was traded on the selected stock exchange or any other stock exchange, as the case may be, on any day immediately prior to valuation day or latest NAV declared by the investment manager of the trust, whichever is later, shall be considered for valuation provided that such date is not more than thirty days prior to the valuation date. d) Where units of InvIT and REIT are not traded on any stock exchange for a continuous period of 30 days then the valuation for such units of InvIT and REIT will be determined based on the price provided by an independent valuation agency(ies). The selection of the independent valuation agency(ies) will be approved by the Valuation Committee. e) Where the valuation for units of InvIT and REIT is not available from any independent valuation agency(ies), the valuation will be determined by the Valuation Committee based on the principles of fair valuation.

Further, after reviewing the valuation of Units of InvITs / ReITs, if the prices as per the above methodology does not represent fair price then the same may be ignored and the valuation in such cases would be decided by the Valuation Committee.

Assets	Methodology
Exchange Traded Commodity Derivatives (ETCDs) (For Gold, Silver, Copper, Aluminium, Zinc & Cash Settled ETCDs)	Exchange Traded Commodity Derivatives (ETCDs) shall be valued at the last quoted closing price on the exchange where such ETCD Contracts are Listed. In the event the last quoted closing price as referred above is not available, such ETCD contracts shall be valued at the Settlement price of the respective stock exchange. In case necessary details to value ETCDs are not available or if the prices as per above do not represent fair price, the valuation committee, in order to ensure fair valuation, will determine price, based on the available information.
Physical Commodities other than Gold & Silver	Physical stocks/Commodities received from the exchange accredited warehouse in the location (as notified and determined by the exchanges) will be valued based on latest spot market price of the respective location as published by the respective commodity exchanges. If on any day the spot market prices as above are not available due to holiday, then the prices of immediately preceding day will be considered for the purpose of valuation of such commodity. In case necessary details to value such commodities are not available or if the prices as per above do not represent fair price, the Valuation Committee, in order to ensure fair valuation, will determine price, based on the available information.

Annexure II

Policy for Inter-Scheme Transfer ('IST'):

1. **IST of equity and related securities**

   IST of equity and equity related securities shall be done at the price determined by the exchange at the time of transfer.

   Where the IST of equity and equity related securities cannot be done as per the foregoing, the IST shall be executed based on Volume Weighted Average Price (VWAP) on NSE, or where the equity shares are not listed in NSE, then VWAP price on BSE will be considered.

2. **Policy for IST of debt and money market securities (including Government Securities)**

   IST will be executed based on average of the prices provided by the agency(ies) appointed by AMFI if prices are received within the pre agreed turn-around-time(TAT).

   If price from only one agency is received within pre-agreed TAT, IST may be executed at that Price.

   Further, after reviewing the IST prices of the securities, if the prices provided by the agency(ies) appointed by AMFI does not represent fair price or If IST Prices are not received from any of the agencies within the agreed TAT, in such cases IST would be carried out at the price as approved by the Valuation Committee in the following order of priority:
   (i) in accordance with clause 3(a) of Seventh Schedule of SEBI (Mutual Funds) Regulations,1996.
   (ii) as per the available information in accordance with the principle of fair valuation.

Annexure III
Waterfall Mechanism for valuation of money market, debt and Government securities

SEBI vide circular no. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019 has laid down
broad principles for considering the traded yields for valuation of Debt, money market and government securities. The said circular prescribes AMFI shall ensure valuation agencies have a documented waterfall approach for valuation of Debt & money market securities.

The extract from AMFI best practices circular (135/BP/83/2019-20) dated November 18, 2019 pertaining to the waterfall mechanism is as under:

Part A: Valuation of Money Market and Debt Securities other than Government Securities (G-Secs)
1. Waterfall Mechanism for valuation of money market and debt securities:

The following shall be the broad sequence of the waterfall for valuation of money market and debt securities:

i. Volume Weighted Average Yield (VWAY) of primary reissuances of the same ISIN (whether through book building or fixed price) and secondary trades in the same ISIN;
ii. VWAY of primary issuances through book building of same issuer, similar maturity (Refer Note 1 below);
iii. VWAY of secondary trades of same issuer, similar maturity;
iv. VWAY of primary issuances through fixed price auction of same issuer, similar maturity;
v. VWAY of primary issuances through book building of similar issuer, similar maturity (Refer Note 1 below);
vi. VWAY of secondary trades of similar issuer, similar maturity;
vii. VWAY of primary issuance through fixed price auction of similar issuer, similar maturity;
viii. Construction of matrix (polling may also be used for matrix construction);
ix. In case of exceptional circumstances, polling for security level valuation (Refer Note 2 below)

Note 1
Except for primary issuance through book building, polling shall be conducted to identify outlier trades. However, in case of any issuance through book building which is less than INR 100 Cr, polling shall be conducted to identify outlier trades.

Note 2
Some examples of exceptional circumstance would be stale spreads, any event/news in particular sector/issuer, rating changes, high volatility, corporate action or such other event as may be considered by valuation agencies. Here stale spreads are defined as spreads of issuer which were not reviewed/updated through trades/primary/polls in same or similar security/issuers of same/similar maturities in waterfall approach in last 6 months.

Further, the exact details and reasons for the exceptional circumstances which led to polling shall be documented and reported to AMCs. Further, a record of all such instances shall be maintained by AMCs and shall be subject to verification during SEBI inspections.

Note 3
All trades on stock exchanges and trades reported on trade reporting platforms till end of trade reporting time (excluding Inter-scheme transfers) should be considered for valuation on that day.

Note 4
It is understood that there are certain exceptional events, occurrence of which during market hours may lead to significant change in the yield of the debt securities. Hence, such exceptional events need to be factored in while calculating the price of the securities. Thus, for the purpose of calculation of VWAY of trades and identification of outliers, on the day of such exceptional events, rather than considering whole day trades, only those trades shall be considered which have occurred post the event (on the same day).

The following events would be considered exceptional events:
i. Monetary / Credit Policy
ii Union Budget
iii Government Borrowing / Auction Days
iv Material Statements on Sovereign Rating
v. Issuer or Sector Specific events which have a material impact on yields
vi Central Government Election Days
vii Quarter end days

In addition to the above, valuation agencies may determine any other event as an exceptional event. All exceptional events along-with valuation carried out on such dates shall be documented with adequate justification.

2. Definition of tenure buckets for Similar Maturity
When a trade in the same ISIN has not taken place, reference should be taken to trades of either the same issuer or a similar issuer, where the residual tenure matches the tenure of the bond to be priced. However, as it may not be possible to match the exact tenure, it is proposed that tenure buckets are created and trades falling within such similar maturity be used as per table below.

Residual Tenure of Bond to be priced	Criteria for similar maturity
Upto 1 month	Calendar Weekly Bucket
Greater than 1 month to 3 months	Calendar Fortnightly Bucket
Greater than 3 months to 1 year	Calendar Monthly Bucket
Greater than 1 year to 3 years	Calendar Quarterly Bucket
Greater than 3 years	Calendar Half Yearly or Greater Bucket

In addition to the above:
a. In case of market events, or to account for specific market nuances, valuation agencies may be permitted to vary the bucket in which the trade is matched or to split buckets to finer time periods as necessary. Such changes shall be auditable. Some examples of market events / nuances include cases where traded yields for securities with residual tenure of less than 90 days and more than 90 days are markedly different even though both may fall within the same maturity bucket, similarly for less than 30 days and more than 30 days or cases where yields for the last week v/s second last week of certain months such as calendar quarter ends can differ.

b. In the case of illiquid/ semi liquid bonds, it is proposed that traded spreads be permitted to be used for longer maturity buckets (1 year and above). However, the yield should be adjusted to account for steepness of the yield curve across maturities.

c. The changes/deviations mentioned in clauses a and b, above, should be documented, along with the detailed rationale for the same. Process for making any such deviations shall also be recorded. Such records shall be preserved for verification.

3. Process for determination of similar issuer

Valuation agencies shall determine similar issuers using one or a combination of the following criteria. Similar issuer do not always refer to issuers which trade at same yields, but may carry spreads amongst themselves & move in tandem or they are sensitive to specific market factor/s hence warrant review of spreads when such factors are triggered.

i. Issuers within same sector/industry and/or
ii. Issuers within same rating band and/or
iii. Issuers with same parent/ within same group and/or
iv. Issuers with debt securities having same guarantors and/or
v. Issuers with securities having similar terms like Loan Against Shares (LAS)/ Loan Against Property (LAP)

The above criteria are stated as principles and the final determination on criteria, and whether in combination or isolation shall be determined by the valuation agencies. The criteria used for such determination should be documented along with the detailed rationale for the same in each instance. Such records shall be preserved for verification. Similar issuers which trade at same level or replicate each other's movements are used in waterfall approach for valuations. However, similar issuer may also be used just to trigger the review of spreads for other securities in the similar issuer category basis the trade/news/action in any security/ies within the similar issuer group.

4. Recognition of trades and outlier criteria

i. Volume criteria for recognition of trades (marketable lot)

Paragraph 1.1.1.1(a) of SEBI vide circular no. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019 on Valuation of money market and debt securities, prescribes that the marketable lots shall be defined by AMFI, in consultation with SEBI. In this regard, marketable lot is defined as under. The following volume criteria shall be used for recognition of trades by valuation agencies:

Parameter	**Minimum Volume Criteria for marketable lot**
Primary	INR 25 cr for both Bonds/NCD/CP/ CD and other money market instruments
Secondary	INR 25 cr for CP/ CD, T-Bills and other money market instruments
Secondary	INR 5 Cr for Bonds/NCD/ G-secs

Trades not meeting the minimum volume criteria i.e. the marketable lot criteria as stated above shall be ignored.

ii. Outlier criteria

It is critical to identify and disregard trades which are aberrations, do not reflect market levels and may potentially lead to mispricing of a security or group of securities. Hence, the following broad principles would be followed by valuation agencies for determining outlier criteria.

a. Outlier trades shall be classified on the basis of liquidity buckets (Liquid, Semi-liquid, Illiquid). Price discovery for liquid issuers is generally easier than that of illiquid issuers and hence a tighter pricing band as compared to illiquid issuers would be appropriate.

b. The outlier trades shall be determined basis the yield movement of the trade, over and above the yield movement of the matrix. Relative movement ensures that general market movements are accounted for in determining trades that are outliers. Hence, relative movement over and above benchmark movement shall be used to identify outlier trades.

c. Potential outlier trades which are identified through objective criteria defined above will be validated through polling from market participants. Potential outlier trades that are not validated through polling shall be ignored for the purpose of valuation.

d. The following criteria shall be used by valuation agencies in determining Outlier Trades

Liquidity classification	**Bps Criteria (Yield movement over Previous Day yield after accounting for yield movement of matrix)**		
	Up to 15 days	**15-30 days**	**Greater than 30 days**
Liquid	30 bps	20 bps	10 bps
Semi-Liquid	45 bps	35 bps	20 bps
Illiquid	70 bps	50 bps	35 bps

The above criteria shall be followed consistently and would be subject to review on a periodic basis by valuation agencies and any change would be carried in consultation with AMFI.
e. In order to ensure uniform process in determination of outlier trades the criteria for liquidity classification shall be as detailed below.

Liquidity classification criteria - Liquid, semi-liquid and Illiquid definition

Valuation agencies shall use standard criteria for classifying trades as Liquid, Semi-Liquid and illiquid basis the following two criteria
a. Trading Volume
b. Spread over reference yield

Such criteria shall be reviewed on periodic basis in consultation with AMFI.

Trading Volume (Traded days) based criteria:
Number of unique days an issuer trades in the secondary market or issues a new security in the primary market in a calendar quarter
•Liquid→ >=50% of trade days
•Semi liquid → >=10% to 50% trade days
•Illiquid→ <10 % of trade days

Spread based criteria:
Spread over the matrix shall be computed and based on thresholds defined, issuers shall be classified as liquid, semi liquid and illiquid. For bonds thresholds are defined as upto 15 bps for liquid; >15-75 bps for semi-liquid; > 75 bps for illiquid. (Here, spread is computed as average spread of issuer over AAA Public Sector Undertakings/Financial Institutions/Banks matrix), For CP/ CD- upto 25 bps for liquid; >25-50 bps for semiliquid; > 50 bps for illiquid. (Here, spread is computed as

average spread of issuer over A1+/AAA CD Bank matrix).
The thresholds shall be periodically reviewed and updated having regard to the market.

The best classification (liquid being the best) from the above two criteria (trading volume and spread based) shall be considered as the final liquidity classification of the issuer. The above classification shall be carried out separately for money market instruments (CP/ CDs) and bonds.

5.Process for construction of spread matrix
Valuation agencies shall follow the below process in terms of calculating spreads and constructing the matrix:

Step s	**Detailed Process**
Step 1	**Segmentation of corporates-** The entire corporate sector is first categorised across following four sectors i.e. all the corporates will be catalogued under one of the below mentioned bucket: 1. Public Sector Undertakings/ Financial Institutions/Banks; 2. Non-Banking Finance Companies -except Housing Finance Companies; 3. Housing Finance Companies; 4. Other Corporates
Step 2	**Representative issuers –** For the aforesaid 4 sectors, representative issuers (Benchmark Issuers) shall be chosen by the valuation agencies for only higher rating (I.e. "AAA" or AA+). Benchmark/Representative Issuers will be identified basis high liquidity, availability across tenure in AAA/AA+ category and having lower credit/liquidity premium. Benchmark Issuers can be single or multiple for each sector. It may not be possible to find representative issuers in the lower rated segments, however in case of any change in spread in a particular rating segment, the spreads in lower rated segments should be suitably adjusted to reflect the market conditions. In this respect, in case spreads over benchmark are widening at a better rated segment, then adjustments should be made across lower rated segments, such that compression of spreads is not seen at any step. For instance, if there is widening of spread of AA segment over the AAA benchmark, then there should not be any compression in spreads between AA and A rated segment

Step s	Detailed Process
	and so on.
Step 3	**Calculation of benchmark curve and calculation of spread** 1. Yield curve to be calculated for representative issuers for each sector for maturities ranging from 1 month till 20 years and above. 2. Waterfall approach as defined in Part A (1) above will be used for construction of yield curve of each sector. 3. In the event of no data related to trades/primary issuances in the securities of the representative issuer is available, polling shall be conducted from market participants 4. Yield curve for Representative Issuers will be created on daily basis for all 4 sectors. All other issuers will be pegged to the respective benchmark issuers depending on the sector, parentage and characteristics. Spread over the benchmark curve for each security is computed using latest available trades/primaries/polls for respective maturity bucket over the Benchmark Issuer. 5. Spreads will be carried forward in case no data points in terms of trades/primaries/polls are available for any issuer and respective benchmark movement will be given.
Step 4	1. The principles of VWAY, outlier trades and exceptional events shall be applicable while constructing the benchmark curve on the basis of trades/primary issuances. 2. In case of rating downgrade/credit event/change in illiquidity or any other material event in Representative Issuers, new Representative Issuers will be identified. Also, in case there are two credit ratings, the lower rating to be considered. 3. Residential tenure of the securities of representative issuers shall be used for construction of yield curve.

Part B : <u>Valuation of G-Secs (T-Bill, Cash management bills, G-Sec and SDL)</u>

The following is the waterfall mechanism for valuation of Government securities:
- VWAY of last one hour, subject to outlier validation
- VWAY for the day (including a two quote, not wider than 5 bps on NDSOM),

subject to outlier validation

- Two quote, not wider than 5 bps on NDSOM, subject to outlier validation
- Carry forward of spreads over the benchmark
- Polling etc

Note:

1. VWAY shall be computed from trades which meet the marketable lot criteria stated in Part A of these Guidelines.

2. Outlier criteria: Any trade deviating by more than +/- 5 bps post factoring the movement of benchmark security shall be identified as outlier. Such outlier shall be validated through polling for inclusion in valuations. If the trades are not validated, such trades shall be ignored.

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