HDFC MUTUAL FUND

and

H-SIF

INVESTMENT VALUATION POLICY AND PROCEDURES

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Propriety	This document is the sole property of HDFC Asset Management Company Limited. Any use or duplication of this document without express permission of Management is strictly forbidden and illegal.
Periodic Review	This Policy and procedures will be reviewed at least once in a Financial Year by the Statutory Auditor.

INDEX

Sr. No:	Particular	Page No(s)
I	Introduction	4
II	Purpose	4
III	Policy, Procedure & Methodology for valuation of securities/assets	4
IV	Inter scheme transfers	5
V	Exceptional events	5
VI	Conflict of Interest	5
VII	Deviation	5
VIII	Record Maintenance	5
IX	Periodic Review	5
X	Disclosure	6
XI	Annexure I Detailed security/ asset -wise valuation policy, procedure & methodology	7
XII	Annexure II Policy on Inter scheme transfer(s)	20
XIII	Annexure III Illustrative list of exceptional events	21
XIV	Annexure IV Indicative Haircut for Below investment Grade Securities	22
XV	Annexure V Waterfall Mechanism for valuation of money market, debt and government securities	23
XVI	Annexure VI Guidelines on Polling process for Money Market and Debt Securities	29
XVII	Annexure VII Guidelines for Valuation of Bonds issued under Basel III framework	31

I. Introduction

The Securities and Exchange Board of India (SEBI) has outlined investment valuation under SEBI (Mutual Funds) Regulations, 2026 ('MF Regulations'), as amended from time to time. The Investment Valuation Norms are prescribed in the Seventh Schedule of the MF Regulations and circulars / guidelines issued by SEBI from time to time (collectively referred to as "MF Regulations").

These principles of fair valuation, as specified in the Seventh Schedule, ensure fair treatment to all investors (including existing as well as new investors) seeking to purchase or redeem the units of the scheme(s)/investment strategy(ies) at all points of time. In the event of any conflict between the principles of fair valuation and valuation guidelines prescribed by SEBI under the MF Regulations, the principles of fair valuation shall prevail.

In order to ensure transparency of valuation norms to be adopted by the asset management company (AMC) it is mandated by SEBI for AMC to disclose their valuation policy and procedures as approved by the Board of AMC on the website of the AMC/Mutual Fund, etc. It is in this context that this Investment Valuation Policy & Procedures is prepared and disclosed for the benefit of investors. This Investment Valuation Policy & Procedures is subject to review and change from time to time.

The investment valuation policy and procedures set out in this Policy shall also apply to all investment strategies launched under H-SIF from time to time, in accordance with the applicable regulatory requirements. In the event of any inconsistency or conflict between this Policy and the regulatory framework, circulars, guidelines, or directions issued by SEBI in relation to Specialized Investment Funds under the SEBI (Mutual Funds) Regulations, 2026, from time to time, the requirements prescribed by SEBI shall prevail to the extent of such inconsistency or conflict.

In relation to a Specialized Investment Fund (SIF), references in this Policy to the "Scheme Information Document" or "SID" shall be construed as references to the "Investment Strategy Information Document" or "ISID", and references to a "Scheme" shall be construed as references to an "Investment Strategy", wherever applicable and subject to the regulatory framework governing SIFs, as amended from time to time.

II. Purpose

The purpose of the Valuation policy and procedures ('the Policy') adopted by the Investment Manager for valuation of investments made by the Scheme(s) and investment strategy(ies) is primarily to-

- describe the methodologies used for valuing each type of securities/assets held by the Scheme(s) and investment strategy(ies);
- ensure that the securities/assets are consistently valued as per the approved methodology/ies.
- ensure the appropriateness and accuracy of the methodologies used and its effective implementation in valuing the securities/assets;
- describe the process to deal with the exceptional events;
- seek to address the conflict of interest;
- devise process to detect and prevent incorrect valuation;
- ensure transparency by making appropriate disclosures.

Therefore, the main purpose of the Policy is to ensure fair treatment to all investors (including existing as well as new investors) seeking to purchase or redeem the units of the Scheme(s) of HDFC Mutual Fund and investment strategy(ies) of H-SIF at all points of time.

III. Principles, Policy, Procedure & Methodology for valuation of securities/assets

(i) HDFC AMC shall adopt the principle of fair valuation i.e. valuation will done be in good faith and in true and fair manner to reflect the net realizable value of the securities /asset as determined by Valuation Committee. This principle will be adopted by AMC even during exceptional events specified in **Annexure III.**

(ii) Detailed security/ asset -wise valuation policy, procedure & methodology for each type of investment made by the scheme(s) of HDFC Mutual Fund and investment strategy(ies) of H-SIF is described in **Annexure I**.

(iii) The Board of HDFC Asset Management Company Limited ('HDFC AMC') and HDFC Trustee Company Limited ('Trustee') shall approve the valuation methodologies for any investments in new securities/assets (other than those mentioned in **Annexure I**).

(iv) Further, the investments held by schemes of the Fund and investment strategies of H-SIF would normally be valued according to the Valuation Guidelines specified by SEBI from time to time. In case of any conflict between the Principles of Fair Valuation as detailed under clause III (i) above and valuation guidelines specified by SEBI from time to time, the Principles of Fair Valuation shall prevail.

(v) In case of securities purchased by the Fund or investment strategies of H-SIF do not fall within the current framework of the valuation of securities/assets under this Policy, the AMC shall immediately report to AMFI regarding the same, if required.

IV. Inter scheme Transfers:

Inter-scheme transfers will be done in line with regulatory requirements and applicable internal policies as determined by the Valuation Committee as described in **Annexure II**.

V. Exceptional events:

The Valuation Committee is authorized by the Board of HDFC AMC and Trustee to determine the exceptional events and devise the process to deal with the exceptional events. Given the exceptional nature of the events, it is not possible to define a standard methodology to be adopted for fair valuation of securities/assets for such events.

The illustrative list of exceptional events is provided in **Annexure III**.

The Valuation Committee shall identify and monitor exceptional events and recommend appropriate procedures / methodologies for the securities/assets. Such decision of Valuation Committee shall subsequently/ suitably be reported to the Boards of HDFC AMC and Trustee Boards, and get the same ratified.

VI. Conflict of Interest:

The implementation of valuation policy and methodologies as adopted / authorised by the Board of HDFC AMC and Trustee shall be subject to review by Valuation Committee. The Valuation Committee will be responsible for addressing areas of conflict of interest and therein recommend changes, if any, in policy/methodology. The same shall be ratified with the Board of HDFC AMC and Trustee.

VII. Deviation:

The AMC will strictly adhere to the valuation norms outlined in this Policy. However, the Valuation Committee is authorized to approve deviations from the Policy, if necessary, to ensure a true, fair, and accurate valuation of the referred security or asset. Any such deviation shall be reported to the Board of HDFC AMC and the Trustee, along with appropriate supporting. Additionally, these deviations shall be appropriately disclosed to the Investors on the website and/or any other means of communication as may be decided by the AMC.

VIII. Record Maintenance:

HDFC AMC shall maintain and preserve documentation for valuation (including inter scheme transfers) either in electronic or physical form for a period of 8 years or such period as specified by SEBI from time to time.

IX. Periodic Review:

In order to ensure the appropriateness and accuracy of the methodologies as mentioned in this Policy and its effective implementation, the Policy shall be reviewed by the Valuation Committee at periodic intervals. Further, the valuation policies and procedures will be reviewed at least once in a Financial Year by the Statutory Auditor.

The updated Policy shall thereafter be placed before the Board of HDFC AMC and Trustee

X. Disclosure:

In order to ensure transparency of valuation norms adopted by HDFC AMC, the valuation policy and procedures shall be disclosed in the Statement of Additional Information (SAI) of the Fund and H-SIF, on the website and at any other place as may be specified by SEBI.

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Annexure I:

Detailed security/asset-wise valuation policy, procedure & methodology for Investments made by the Scheme(s) of HDFC Mutual Fund and Investment Strategy(ies) of H-SIF:

The valuation policy, procedure & methodology adopted by the Investment Manager for investments in securities/assets made by the Scheme(s)/investment strategy(ies) is as under:

I. Equity & Equity Related Instruments

Security Type	Valuation Policy
Listed Shares / Partly-Paid Shares/ Warrants	Valuation will be at the closing market price of the principal stock exchange. The National Stock Exchange of India Limited ('NSE') is designated as the principal stock exchange for the purpose of valuation of securities. If security is not traded on principal stock exchange on a particular valuation day, the closing market price at which it is traded on any other stock exchange will be used. If security is not traded on any stock exchange on a particular valuation day, then price at which it traded on the principal stock exchange or any other stock exchange, as the case may be, on the earliest previous day will be used provided such date is not more than 30 days prior to valuation date. The securities held under the portfolio of Index Scheme(s) and Exchange Traded Funds will be valued using the closing value of the underlying index of the scheme(s).
Thinly Traded / Non-Traded Equity Shares/ Partly Paid Shares	Thinly traded/Non-Traded /Partly Paid shares will be valued at fair value as per procedures* determined by the Valuation Committee. Non-Traded equity shares are equity shares which are not traded on any recognized stock exchange for a period of thirty days prior to the valuation date. Thinly traded equity shares are equity shares for which 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 NSE and BSE shall be considered.
Initial Public Offering including Anchor Investments in Equity Shares (awaiting listing)	Initial Public Offering including Anchor investments prior to allotment shall be valued at bid price. Qualified Institutional Placement (QIP) / Follow on Public Offer (FPO) shall be valued at bid price or market price, whichever is lesser. Equity shares allotted in Initial Public offerings shall be valued at allotment price till listing.
Equity & Equity related securities under lock-in excluding Anchor investments	Equity and Equity related securities under lock-in (excluding Anchor Investments) will be valued after applying suitable discount approved by Valuation Committee to the closing market price of the security

Security Type	Valuation Policy
Unlisted Shares / Pre-IPO to be listed Shares/ Warrants/ Rights	Securities will be valued at fair value as per procedures* determined by the Valuation Committee.
Options	Valuation of Options contract at the day end settlement price on the NSE.
Futures	Valuation of futures contract at the day end settlement price on the NSE.
Compulsory Convertible Debentures (CCDs)	Valuation will be at the closing market price of the principal stock exchange. The National Stock Exchange of India Limited ('NSE') is designated as the principal stock exchange for the purpose of valuation of securities. If security is not traded on principal stock exchange on a particular valuation day, the closing market price at which it is traded on any other stock exchange will be used. If security is not traded on any stock exchange on a particular valuation day and the prices from AMFI approved valuation agencies are available, then the average prices provided by AMFI approved agencies will be used. In case the securities do not get traded for a period of 30 days or prices of AMFI approved agencies are not available, CCDs will be valued at fair value as per procedures* determined by the Valuation Committee.
Preference Shares	**Listed (Convertible / Non-Convertible)** Valuation will be at the closing market price of the principal stock exchange. The National Stock Exchange of India Limited ('NSE') is designated as the principal stock exchange for the purpose of valuation of securities. If security is not traded on principal stock exchange on a particular valuation day, the closing market price at which it is traded on any other stock exchange will be used. If security is not traded on any stock exchange on a particular valuation day, then price at which it traded on the principal stock exchange or any other stock exchange, as the case may be, on the earliest previous day will be used provided such date is not more than 30 days prior to valuation date. The securities held under the portfolio of Index Scheme(s) and Exchange Traded Funds will be valued using the closing value of the underlying index of the scheme(s). If preference shares are not traded for more than 30 days on any stock exchange and the valuation agencies i.e. CRISIL & ICRA have agreed to provide the valuation price, then it will be valued at average of the price provided valuation agencies until it gets traded. **Unlisted (Convertible / Non-Convertible)** If prices are provided by AMFI approved valuation agencies i.e. CRISIL & ICRA then the valuation shall be based on the average of prices provided by agencies. In instances where either or both

Security Type	Valuation Policy
	agencies do not provide prices, the Valuation Committee will determine the valuation If prices are not provided by valuation agencies: ➢ 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 share. ➢ Convertible preference share shall be valued as per below formula Price of convertible Preference Share = Preference shares dividend / Expected return on Preference Share X Face Value From Ex-date till the date of allotment preference shares will be valued at face value of the security.

***Procedure & Methodology for valuation of unlisted or pre-IPO to be listed or thinly traded/non-traded equity/partly-paid up equity/ equity related securities**

i) **Equity Shares** - Valuation will be computed on the basis of average of the book value and price computed by capitalisation of earning method. For the purpose of capitalisation of earning method, Industry Price / Earnings ratio will be considered which will be adjusted for liquidity.

Where the unlisted equity shares are acquired as result of corporate actions like demerger/amalgamation, the unlisted equity shares will be valued at the intrinsic value on the ex-date as follows:

A. The intrinsic value for new entity resulting out of corporate actions where financial statements are available will be valued on the basis of average of the book value and price computed by capitalisation of earning method.

B. The intrinsic value for new entity resulting out of corporate action where financial statements are not available will be valued as per differential pricing method after applying appropriate illiquidity discount as determined by valuation committee.

Example 1: If AB company gets demerged in to A Company & B Company and the new company B is not a listed company. The value of B Company is proposed to be arrived as follows:

Market Value of AB Company (Pre-Merger closing market price)	(X)	Rs.250/-
Market Value of A Company (Post-Merger closing market Price)	(Y)	Rs.150/-
Valuation of B Company as per differential pricing method	(X – Y)	Rs.100/-
Illiquidity Discount (20%)		Rs.20/-
Valuation of B Company (After illiquidity discount)		Rs.80/-

Example 2: IF AB company gets demerged in to A Company and B company and the new company B is not a listed company. There is a special pre-open session (SPOS) conducted by exchanges (NSE and/or BSE) as per NSE Press Release Dated 26th April, 2023, to derive the price of demerged company A on ex-demerger date.

Market Value of AB Company (Pre-Merger closing market price)	(X)	Rs.250/-
Market Value of A Company (As per SPOS conducted on Ex-date)	(Y)	Rs 150/-
Valuation of B Company as per differential pricing method	(X)-(Y)	Rs 100/-
Illiquidity Discount	Rs Nil	
Valuation of B Company (After Illiquidity discount)		Rs 100/-

Illiquidity discount may be applied in cases where special pre-open session (SPOS) is conducted by exchanges where the unlisted resultant demerged entity Company B is not part of any indices.

The intrinsic value so arrived will be periodically reviewed by Valuation Committee till listing of such shares.

ii) **Pre-IPO to be listed Equity Shares** Where investment is made in equity shares as part of pre-IPO transaction such shares which are to be listed will be valued at the price at which they are purchased less suitable illiquidity discount for pending listing and / or lock in period, if any.

iii) **Partly Paid Shares:** Non-traded /Thinly traded / suspended for trading partly-paid equity shares shall be valued at the latest price of partly equity shares. The price may continue for a period of thirty days.

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.

Unlisted (Acquired by corporate action) 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.

iv) **Warrants** - Warrants will 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 arrived will be reduced by appropriate discount as decided by Valuation Committee.

v) **Right entitlements** - Right entitlements if traded will be valued at the closing market price on Principal stock exchange (NSE). If the entitlements are not traded on NSE but are traded on any other stock exchange the closing market price of the exchange where it traded will be considered for valuation.

Non-traded rights entitlement will be valued as difference between the ex-rights price of the underlying equity share (determined as per valuation policy) and the rights offer price.

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.

***Procedure & Methodology for valuation of CCDs**

i) Each CCD shall be converted into such number of Equity Shares based on the conversion price arrived in accordance with the offer documents.

ii) In case the CCD has two components viz. one component having bond carrying a coupon rate and second component having an embedded forward contract for compulsory conversion into equity, at a pre-determine formula, linked to the underlying price of the stock on the exchange, the valuation derived would be a summation of the bond valuation and the Net present value (NPV) of the gain / loss on the embedded forward contract for conversion into equity shares.

iii) Valuation of bonds: The same will be valued as per the prices provided by AMFI approved agencies.

iv) Valuation of embedded forward contract for equity conversion: The embedded forward contract has three elements – time value, price movement of the underlying stock and illiquidity risk. The time value (NPV) is the discounting factor, as derived from the bond valuations (from AMFI valuation agencies).

v) In case the conversion is scheduled after completion of specified period/years as mentioned in the offer documents, the value arrived will be reduced by appropriate illiquidity discount on the gain, if any, as may be specified by SEBI under the applicable guidelines or as may be decided by Valuation Committee.

vi) The Valuation Committee may exercise its discretion to value the security at a conservative value i.e. at cost or as per the above methodology whichever is lower.

II. Debt & Debt Related Instruments

Security Type	Valuation Policy
Government Securities (including Treasury Bills and Separate Trading of Registered Interest and Principal Securities (STRIPs))	Government Securities (including Treasury Bills) will be valued at average of the prices provided by AMFI approved agencies (currently CRISIL and ICRA).
Debt Securities/ Instruments (Commercial Paper/ Certificate of Deposit / Bonds/Zero Coupon Bonds/ Bills /Floating rate securities/Securitization, Partly Paid Debentures etc.)	Debt & Money Market securities will be valued at the average prices provided by AMFI approved agencies. **(Refer Note 2 below)** In case of price being available from **only one agency**, the same will be considered for valuation. In case of non-availability of prices from AMFI approved agencies- • Traded (Own) securities will be valued at weighted average traded price /yield on the date of trade. **(Refer Note 1 below)** • Non-traded securities will be at the fair value as per procedures determined by the Valuation Committee.
Money Market and Debt Securities/Instruments rated below investment grade	All money market and debt securities/instruments which are rated below investment grade *("if the long term rating of the security is below BBB- and if the short term rating of the security is below A3"*) shall be valued at the prices/ basis the indicative haircut(s) provided by valuation agencies (currently CRISIL/ICRA). **(Refer Note 3 and 4 below)**
Interest Rate SWAP (IRS)/ Forward Rate Agreements (FRA's)	All OTC derivatives viz. IRS/ FRA's will be valued at the average prices provided by AMFI approved agencies *(currently CRISIL and ICRA)*.
Reverse Repo/TREPS	Reverse Repo (Including Corporate Bond Reverse Repo) / Tri-Party Repo i.e. TREPS, including overnight Reverse Repo or TREPS, shall be valued at the average prices provided by AMFI approved agencies (Currently CRISIL and ICRA) AMFI Best Practices circular SEBI/HO/IMD/IMD-I PoD-1/P/CIR/2024/163. In case prices are not available then the same shall be valued at cost plus accrual basis.
Investments in short-term deposits with banks	Investments in short-term deposits with banks (pending deployment) will be valued at cost plus the accrual

Notes:

1) 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 or SIF)* then such security may be valued at weighted average purchase yield/price basis on the date of allotment / purchase.

2) AMFI approved agencies (currently CRISIL and ICRA) are considering the trades reported at all public platform viz. FIMDDA/NDS-OM/NSE/BSE for determining the prices for debt securities

3) All money market and debt securities/instruments which are rated below investment grade, shall be valued as under:

a) To be valued on the basis of valuation price for such securities provided by CRISIL and ICRA / or any other AMFI appointed agency (ies);

b) Till such time the valuation agencies compute the valuation of money market and debt securities classified as below investment grade or default, 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 or default 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. (*Refer* **Annexure IV** *for indicative haircut provided by AMFI*)

c) Consideration of traded price for valuation:

- In case of trades during the interim period between date of credit event and receipt of valuation price from valuation agencies, AMC 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.
- 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.
- The trades referred above shall be of a minimum size as defined in note 6(A)(i).

d) The AMC may deviate from the indicative haircuts and/or the valuation price for money market and debt securities/instruments rated below investment grade provided by the AMFI approved agencies by recording detailed rationale for such deviation with the approval of Valuation Committee. The AMC shall follow the procedure as mentioned in Master Circular for Mutual Funds and other applicable guidelines as may be issued by SEBI from time to time.

e) Treatment of outstanding accrued interest on the date of downgrade and subsequent accrual of interest is as follows:

- The indicative haircut applied on the principal outstanding should be applied to outstanding accrued interest on the date of downgrade.
- In case of securities classified as below investment grade but not as default, interest accrual may continue with the same haircut applied to the principal.
- In case of securities classified as default, no further interest will be accrued.

f) Treatment of any future recovery in terms of principal or interest:

- Any recovery shall first be adjusted against the outstanding accrued interest recognized in the NAV and any balance shall be adjusted against the value of principal recognized in the NAV.
- Any recovery in excess of above value (i.e. the value recognized in NAV) should then be applied first towards any amount of interest written off and then towards amount of principal written off.

4. Deviation from Prices provided by valuation agencies

(i) In case for any security wherein only one of the AMFI approved agency has provided the price, the same will be considered for valuation of the security.

(ii) In case the valuation committee is of the opinion that the price feeds provided by AMFI appointed agencies are not provided or prices are not reflective of fair value/ realizable value of the security, the same shall be valued on the basis of guidelines provided by the valuation committee. In approving such valuations, the valuation committee shall follow the principles of fair valuation and provide suitable justification for the same.

(iii) 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 as per the valuation agencies and the impact of such deviation on scheme NAV (in amount and percentage terms) shall be reported to the Board of AMC and Trustees. The rationale shall also be disclosed immediately and prominently, under a separate head on the website of AMC.

5) Segregated Portfolio valuation:

Notwithstanding the decision to segregate the debt and money market instrument in accordance with the SEBI Master Circular for Mutual Funds on "Segregated portfolio in mutual fund schemes", the valuation should consider the credit event and value the portfolio based on the principles of fair valuation. (i.e. realizable value of the assets) in terms of relevant provisions of SEBI (Mutual Funds) Regulation, 2026 and Master Circular for Mutual Funds issued thereunder. In case of AT-1 Bonds) and Tier 2 Bonds, the financial stress of the issuer and the capabilities of issuer to repay the dues/borrowings are considered in the valuation of the securities from the trigger date onwards i.e. date on which the instrument is to be written off or converted to equity pursuant to any proposal or otherwise.

Irrespective of the above policy, the valuation committee might adopt valuation principles to align with fair valuation norms.

6) Guidelines for valuation of Debt & Debt Related Instruments:

All Debt & Debt related Instruments are valued based on AMFI and SEBI Master Circulars/circulars/ guidelines, by the independent valuation agencies nominated by AMFI for determining valuation for such securities

A. Definition of non-traded, thinly traded and traded money market / debt security (*Effective from February 16, 2020*):

(i) Traded and non-traded money market and debt securities shall be defined as follows:
A money market or debt security shall be considered as traded when, on the date of valuation, there are trades (in marketable lots) in that security on any recognized Stock Exchange or there are trades reported (in marketable lots) on the trade reporting platform of recognized stock exchanges or The Clearing Corporation of India Ltd. (CCIL).

Marketable lot defined by AMFI in consultation with SEBI is as under: -
The following volume criteria shall be used for recognition of trades by valuation agencies:

Parameter	Minimum Volume of Criteria for marketable lot
Primary	₹ 25 cr for both/ NCD/ CP/ CD and any other money market instruments
Secondary	₹ 25 cr for CP/CD, T-Bills and any other money market instruments
Secondary	₹ 5 cr for Bonds/ NCD/ G-Secs

(ii) A money market or debt security shall be considered as non-traded when, on the date of valuation, there are no trades (in marketable lots) in such security on any recognized Stock

Exchange or no trades (in marketable lots) have been reported on any of the aforementioned trade reporting platforms.

B. Valuation of securities with Put/Call Options

The option embedded securities would be valued as follows:

i) 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, the lowest value obtained by valuing to the various call dates and valuing to the maturity date is to be taken as the value of the instrument.

ii) 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, the highest value obtained by valuing to the various put dates and valuing to the maturity date is to be taken as the value of the instrument.

iii) Securities with both Put and Call Option:
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:

a) 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.

b) 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.

c) In case no Put Trigger Date or Call Trigger Date ('Trigger Date") is available, then the 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.

iv) If a put option is not exercised by a Mutual Fund/SIF when exercising such put option would have been in favour of the scheme/investment strategy, in such cases the justification for not exercising the put option shall be provided to the Board of AMC and Trustees.

v) Any put option inserted subsequent to the issuance of the security shall not be considered for the purpose of valuation and original terms of the issue will be considered for valuation.

C) Treatment of Upfront Fees on Trades:
i) 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.

ii) Details of such upfront fees should be shared by the AMC on the trade date to the valuation agencies as part of the trade reporting to enable them to arrive at the fair valuation for that date.

iii) For the purpose of accounting, such upfront fees should be reduced from the cost of the investment in the scheme/investment strategy that made the investment.

iv) In case upfront fees are received across multiple schemes/investment strategies, then such upfront fees should be shared on a pro-rata basis across such schemes/investment strategies.

D. Impact of any Changes to terms of an investment:

(i) While making any change to terms of an investment, AMC shall adhere to the following conditions:

(a) Any changes to the terms of investment, which may have an impact on valuation, shall be reported to the valuation agencies immediately.

(b) Any extension in the maturity of a money market or debt security shall result in the security being treated as "Default", for the purpose of valuation.

(c) If the maturity date of a money market or debt security is shortened and then subsequently extended, the security shall be treated as "Default" for the purpose of valuation.

(d) Any put option inserted subsequent to the issuance of the security shall not be considered for the purpose of valuation and original terms of the issue will be considered for valuation.

E. Waterfall mechanism for valuation of money market and debt securities to the used by the valuation agencies (*Effective from February 16, 2020*):

(i) For arriving at security level pricing, a waterfall mechanism to be used by valuation agencies as provided by AMFI in consultation with SEBI (*refer* **Annexure V**).

(ii) Guidelines issued by AMFI on polling by valuation agencies and on the responsibilities of Mutual Funds in the polling process, as part of the aforesaid waterfall approach is attached at (*refer* **Annexure VI**).

F. Valuation of Bonds issued under Basel III framework as per SEBI Master Circular for Mutual Funds and AMFI Best Practices circular 135/BP/ 91 /2020-21 dated March 24, 2021. Relevant extract of AMFI Best Practices is being reproduced in (**Annexure VII**).

G. Valuation of partly paid debentures (PPDs) shall **be done as per** AMFI Best Practices circular 135/BP/ 115 /2024-25, read with any amendments/clarifications issued from time to time. The valuation of partly paid debentures shall be done on face value of Rs.100 when it is fully paid. If it is partly-paid, valuation shall be done on actual paid up value as on particular valuation date.

Following two types of PPD's are available in the market:

Type I: Where pay-in dates and pay-in values are clearly defined – In such case future pay-ins are plotted as per details available in term sheet. (Mutual Funds cannot buy these PPDs as per the AMFI Best Practices Guidelines circular no. 83 dt. 18-Nov-2019)

Type II: Pay in dates and pay in values are not clearly defined or are linked to occurrence of some event or is optional linked to on demand from issuer/investor for making such pay-ins – In such case, since pay-in dates/pay-in values can't be estimated, such future pay-ins are factored on actual basis on receipt of information.

Yields for valuation shall be derived on a daily basis using the standard waterfall approach **(Refer Annexure V)** prescribed for valuation of money market, debt and government securities.

III. Others

Security/ Asset Type	Valuation Policy
Listed Domestic Mutual Fund Units	Valuation will be at the closing market price at the principal stock exchange. If units are not traded on principal stock exchange on a particular valuation day, the closing market price on any other stock exchange where units are traded will be used. If units are not traded on any stock exchange on a particular valuation day, then closing market price at which it traded on the principal stock exchange or any other stock exchange, as the case may be, on the earliest previous day will be used provided such date is not more than 30 days prior to valuation date.
Unlisted/ Non-Traded Domestic Mutual Fund Units	Valuation will based be on latest Net Asset Value (NAV) of Mutual Fund units.
Gold	Physical gold with a purity of 99.5% (fineness of 995 parts per thousand) will be valued based on the polled spot prices for gold of similar purity, as published by a recognized stock exchange and used for the settlement of physically delivered gold derivatives contracts. The designated exchange for this purpose is the Multi Commodity Exchange of India Limited (MCX). In the event MCX does not publish polled spot prices for gold of 99.5% purity, valuation may be carried out using prices published by any other credible and widely accepted source, as approved by valuation committee. If such prices are not available from either MCX or prices published by credible sources as stated above does not represent market value of gold, physical gold will be valued at fair value, as determined by the Valuation Committee. The spot price polling mechanism will comply with SEBI guidelines issued from time to time. Accordingly, the uniform spot polling guidelines prescribed by AMFI will be adhered to.
Silver	Physical silver with a purity of 99.9% (fineness of 999 parts per thousand) will be valued based on the polled spot prices for silver of similar purity, as published by a recognized stock exchange and used for the settlement of physically delivered gold derivatives contracts. The designated exchange for this purpose is the Multi Commodity Exchange of India Limited (MCX). In the event MCX does not publish polled spot prices for silver of 99.9% purity, valuation may be carried out using prices published by any other credible and widely accepted source, as approved by valuation committee. If such prices are not available from either MCX or prices published by credible sources as stated above does not represent market value of silver, physical silver will be valued at fair value, as determined by the Valuation Committee.

Security/ Asset Type	Valuation Policy
	The spot price polling mechanism will comply with SEBI guidelines issued from time to time. Accordingly, the uniform spot polling guidelines prescribed by AMFI will be adhered to.
Exchange Traded Commodity Derivatives (ETCDs)	**Valuation of ETCDs - Futures and Options**: ➢ ETCD contracts shall be valued at the closing/settlement price of the exchange where such ETCD contracts are listed. ➢ On a valuation day, if the closing market price is unavailable then such ETCD contracts shall be valued at the settlement price. ➢ In cases where necessary details to value ETCDs are not available, valuation shall be carried out at fair value as per procedures determined by the Valuation Committee. **Valuation of ETCDs- Conversion into Physical Commodities**: ➢ Upon receipt of physical commodities at the accredited warehouse of the exchange at the allocated location, valuation will be based on the latest spot price for the respective location published by the respective commodity exchange. ➢ If prices are unavailable due to a holiday, the immediately preceding day's prices will be considered for valuation. ➢ In cases where necessary details to value are not available, valuation shall be at fair value as per procedures determined by the Valuation Committee.
Fixed Deposits	Fixed deposits will be valued at cost.
Listed Foreign Securities (including ADR/GDR and Overseas Mutual Fund Units) *[refer note below]*	**(i) Traded Securities** Traded foreign securities (including ADR/GDR and units of overseas mutual funds) shall be valued based on the closing market price of the security as on the valuation date of the stock exchange on which the security is listed. If the security is listed on more than one stock exchange, the AMC shall select the appropriate stock exchange and the reasons for selection of the stock exchange shall be recorded in writing and approved by Valuation Committee. 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 another stock exchange or last available price on the selected stock exchange shall be used provided such date is not more than thirty days prior to the valuation date. **(ii) Listed Overseas Exchange Traded Fund** Exchange Traded Fund units shall be valued based on the closing price of the security as on the valuation date of the stock exchange on which the respective Overseas ETF is listed. In case an Overseas ETF is listed on more than one stock exchange, the AMC shall select the appropriate stock exchange and the reasons for selection of the stock exchange shall be recorded in writing and

Security/ Asset Type	Valuation Policy
	approved by Valuation Committee. Any subsequent change in the stock exchange selected for valuation of Overseas ETF will also be recorded in writing and approved by Valuation Committee. When on a particular valuation day, if the latest available closing price is not available for units of Overseas ETF on the selected stock exchange then value at which such units are traded on another stock exchange or last available price on the selected stock exchange, shall be used provided such date is not more than thirty days prior to the valuation date. On valuation date, all assets and liabilities in foreign currency shall be valued in Indian Rupees at the FBIL reference rate as at the close of banking hours on the relevant business day in India. If the security is listed in currency for which FBIL reference rate is not available, the exchange rates available from Reuters will be used. In case the direct exchange rates are not available on Reuters, then cross currency rate with USD would be considered and converted as per the INR/USD FBIL reference rate. If required, the AMC may change the source of determining the exchange rate. **(iii) Non-Traded Securities** Non-traded foreign security shall be valued by AMC at fair value after considering relevant factors on case to case basis. Non-traded ADR/ GDR shall be valued after considering prices/issue terms of underlying security. Valuation committee shall decide the appropriate discount for illiquidity.
Units of Unlisted overseas Mutual Funds	Valuation will based be on Net Asset Value (NAV) of Mutual Fund units on the valuation date. On valuation date, all NAV's in foreign currency shall be valued in Indian Rupees at the FBIL reference rate as at the close of banking hours on the relevant business day in India. If the Units NAV is quoted in currency for which FBIL reference rate is not available, the exchange rates available from Reuters will be used. In case the direct exchange rates are not available on Reuters, then cross currency rate with USD would be considered and converted as per the INR/USD FBIL reference rate.
Units of REITs / InvITs (Listed/ Unlisted/ Public / Private etc)	**Allotted but Listing awaited** The units of REITs and InvITs post allotment (awaiting listing) will be valued at allotment price. **Listed Units of REITs / InvITs** The valuation of units of Listed REITs/InvITs will be determined in accordance with the priority order outlined below: 1. **Traded:** The units of REITs/InvITs will be valued at the closing market price at the principal stock exchange. The designated principal stock exchange for the Valuation Policy is National Stock Exchange (NSE) or as may be approved by Valuation Committee

Security/ Asset Type	Valuation Policy
	from time to time. If units are not traded on principal stock exchange on a particular valuation day, the closing market price on any other stock exchange where units are traded will be used. 2. **Non-Traded:** If units are not traded on any stock exchange on a particular valuation day, then the latest available closing market price at which it was traded on any other stock exchange will be used for valuation, provided that such date is not more than thirty days prior to the valuation date. However, if the investment manager of a REITs / InvITs declares a NAV for valuation after the last traded date (which falls within the 30-day period preceding the valuation date), and the NAV also falls within the same 30-day period preceding the valuation date, then the NAV will be considered valuation. Further, in absence of any trade or declared NAV in the thirty days prior to valuation, the last declared NAV by the investment manager of REITs / InvITs shall be used for valuation purposes (provided that the date of NAV declaration does not exceed six months prior to the valuation date). 3. Where the NAV for units of REITs/ InvITs is not available or is exceeding period of 6 months as stated above, the valuation will be determined by the Valuation Committee based on the principles of fair valuation. **<u>Unlisted Units of REITs / InvITs</u>** Units of Unlisted REITs / InvITs will be valued as per the below mentioned priority order: 1. The last declared NAV by the investment manager of REITs / InvITs shall be used for valuation purposes (provided that the date of NAV declaration does not exceed six months prior to the valuation date). 2. Where the NAV for units of REITs/InvITs is not available or is exceeding period of 6 months as stated above, the valuation will be determined by the Valuation Committee based on the principles of fair valuation.
Units of Alternative Investment Fund ("AIF")	Units of Alternative Investment Fund (AIF) shall be valued based on the latest Net Asset Value ("NAV") per unit declared by the respective Investment Manager.

Note:

HDFC AMC as a principle shall ensure that NAV of schemes (including index/ETFs) investing at least 80% of total assets in permissible overseas investments is disclosed based on the value of underlying securities/ Funds as on the T day (i.e. date of investment in MF units in India).

Annexure II

Policy on Inter scheme transfer(s):

Security Type	Inter scheme Policy
Listed Equity Shares	Inter scheme to be done on latest quote for a particular security on Bloomberg, Reuters, etc.
Debt & Money Market Securities (Government Securities/ Treasury bills/ Commercial Paper/ Certificate of Deposit / Bonds/Zero Coupon Bonds/ Bills/Floating rate securities/Securitization, etc.)	i. IST of Securities will be done as per the average prices provided by AMFI approved agencies currently CRISIL & ICRA. ii. If prices from the valuation agencies are received within the pre-agreed TAT as per AMFI, an average of the prices so received shall be used for IST pricing. iii. If price from only one valuation agency is received, that price may be used for IST pricing. iv. If prices are not received from any of the valuation agencies, AMC may determine the price for the IST, in accordance with the SEBI Master Circular for Mutual Funds and/or guidelines issued by SEBI from time to time

*Note: "*Scheme" shall also mean as references to an "Investment Strategy" in relation to H-SIF

The Inter scheme transfer(s) will be undertaken as per the AMC's internal process, procedure & methodology.

Annexure III

The illustrative list of exceptional events is provided as under:

The Exceptional events where current market information may not be available / sufficient for valuation of securities are classified as under:

a. Policy announcements by the Reserve Bank of India (RBI), the Government, any Regulatory body like (SEBI/IRDA/PFRDA) including the monetary policy, budget or other regulatory related events.

b. Natural disasters or public disturbances or emergency situations resulting from geopolitical tensions, war conflicts, and other related crises, that may impact the functioning of the capital markets.

c. Absence of trading in a specific security or similar securities.

d. Sufficient market information may not be available for the Valuation of Securities.

e. Valuation Agencies do not provide Valuation for Securities.

f. Significant volatility in the capital markets/forex.

g. Deviation from the indicative haircuts and/or the valuation price

h. Other external factors which may be determined by the Valuation Committee from time to time

Note:

1. Any change/modification to the above list of exceptional events shall be updated from time to time.

2. Considering the exceptional nature of events, it is not possible to cover all the potential exceptional events above and to determine a standard methodology to be adopted for fair valuation of securities for such events. The Valuation Committee shall identify and monitor the exceptional events and recommend appropriate procedures/methodologies with necessary guidance from the Board of HDFC AMC and Trustee, wherever required, and get the same ratified subsequently.

3. To ensure fair valuation, Fund Managers may propose an illiquidity discount, in case required. Such illiquidity discounts shall be subject to prior approval of the Valuation Committee.

Annexure IV

Indicative Haircut for below investment grade securities:

Haircuts for senior, secured securities

Rating/sector	Infrastructure, Real Estate, Hotels, Loan against shares and Hospitals	Other Manufacturing and Financial Institutions	Trading, Gems & Jewellery and Others
BB	15%	20%	25%
B	25%	40%	50%
C	35%	55%	70%
D	50%	75%	100%

Haircuts on subordinated and unsecured (or both) securities

Rating/sector	Infrastructure, Real Estate, Hotels, Loan against shares and Hospitals	Other Manufacturing and Financial Institutions	Trading, Gems & Jewellery and Others
BB	25%	25%	25%
B	50%	50%	50%
C	70%	70%	70%
D	100%	100%	100%

Annexure V

Waterfall Mechanism for valuation of money market, debt and government securities:

SEBI Master Circular for Mutual Funds provides for 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)

SEBI Master Circular for Mutual Funds 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 below 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)**		
	Upto 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.

Type of security	Spread for Liquid	Spread for Semi Liquid	Spread for Illiquid	Spread computation
Bonds	Upto 15 Bps	>15 - 75 Bps	> 75 Bps	Note 1
CP / CD	Upto 25 Bps	>25 - 50 Bps	> 50 Bps	Note 2

Note 1: spread is computed as average spread of issuer over AAA Public Sector Undertakings/Financial Institutions/Banks matrix

Note 2: 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 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 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 liquidity 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. Residual tenure of the securities of representative issuers shall be used for construction of yield curve.

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

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.

Annexure VI

Guidelines on Polling Process for Money Market and Debt Securities:

The Guidelines on polling issued by AMFI in consultation with SEBI are as under:

Polling Guidelines:

1. Valuation agencies shall identify the Mutual Funds who shall participate in the polling process on a particular day, taking into account factors such as diversification of poll submitters and portfolio holding of the Mutual Funds. Mutual Funds who are identified by the valuation agencies shall necessarily participate in the polling process. However, in case any Mutual Fund does not participate in the polling process, detailed reason for the same shall be recorded at the time and subsequently made available during SEBI inspections. In this respect, since a Mutual Fund may have investments in similar securities, a security not forming part of investment universe may not be considered as an adequate reason for not participating in the polling process.

2. Polling will be carried out on a daily basis by the valuation agencies, in terms of points 9-11 below.

3. Each valuation agency needs to take polls from at least 5 unique Mutual Funds on a daily basis. Hence, between the two valuation agencies 10 unique Mutual Funds to be polled. They may cover more Mutual Funds, over and above this. For benchmark securities a poll constituting at least 5 responses will be considered as valid. In case of non-benchmark securities a poll constituting at least 3 responses will be considered as valid. The responses received by each valuation agency will be shared with the other agency also.

4. Median of polls shall be taken for usage in valuation process.

5. The valuation agencies will also need to cover as many non- Mutual Fund participants as possible, over and above the Mutual Funds, to improve on the polling output quality.

6. Endeavour would be made to have adequate representation of both holders and non-holders of the same bond/same issuer for non-benchmark securities in the poll process. Where this is not possible, valuation agencies may seek polls from holders of bonds with a similar structure.

7. In the case of issuers with multiple notch rating upgrades / downgrades over short periods of time, valuation agencies shall:

   a. Conduct polls with a larger universe of pollers.
   b. Increase the frequency of polling

8. Suo moto feedback on valuations should be entertained only through formal mails from persons designated by AMC for said purpose, and the same shall be validated through repolling. Any such feedback shall be duly recorded by the valuation agencies, including the reason for the challenge, results of repolling and subsequent changes in valuation on re-polling, if any. Such records shall be preserved by the valuation agencies, for verification.

9. Polling will be done for two sets of securities, Benchmark & Others.

10. Benchmark will be defined for the following categories across tenors.
    a) Treasury Bills
    b) Central Government Securities
    c) State Government Securities
    d) AAA PSU / PFI / PSU Banks
    e) AAA Private

f) NBFC
g) HFC
h) Any other as required for improving fair valuations

11. Polling shall be conducted in the following two scenarios:
    a) Validation of traded levels if they are outlier trades.
    b) Non-traded Securities (in exceptional circumstances as defined in the waterfall mechanism for valuation of money market and debt securities).

12. Best efforts should be made by poll submitters to provide fair valuation of a security.

13. The polling process will be revalidated by external audit of the valuation agencies with at least an annual frequency

14. AMCs shall have a written policy, approved by the Board of AMC and Trustees, on governance of the polling process. The aforesaid policy shall include measures for mitigation of potential conflicts of interest in the polling process and shall identify senior officials, with requisite knowledge and expertise, who shall be responsible for polling. Further, the policy should outline the following aspects.

    a. the process of participating in a polling exercise.
    b. identify the roles and responsibilities of persons participating in the polling.
    c. include policies and procedures for arriving at the poll submission
    d. cover the role of the Board of AMC and Trustees, and the periodic reporting that needs to be submitted to them.
    e. All polling should be preferably over email. In case for any reason, the polling is done by way of a telephonic call then such a call should be over recorded lines, followed subsequently by an email.
    f. AMCs should have adequate business continuity arrangements for polling, with the necessary infrastructure / skill to ensure that consistent delivery of poll submissions is made without material interruption due to any failure, human or technical.

15. All polling done will have to be documented and preserved in format approved by the Board of AMC, for a period of eight years, along-with details of the basis of polling (such as market transactions, market quotes, expert judgement etc.).

16. AMCs shall ensure that participation in the polling process is not mis-used to inappropriately influence the valuation of securities. The officials of the AMC who are responsible for polling in terms of point no. 14 above, shall also be personally liable for any misuse of the polling process.

17. AMCs shall maintain an audit trail for all polls submitted to valuation agencies.

Annexure VII

Guidelines for Valuation of Bonds (AT 1 Bonds and Tier 2 Bonds)

1. Currently a bond is considered traded, if there is at least one trade in market lot in that particular ISIN. If the bond does not get traded there is a defined waterfall mechanism for valuation of that bond as per AMFI Best Practice Guideline circular no. NO.83 / 2019-20 dated November 18, 2019.

2. The said waterfall requires grouping of same issuer with similar maturity and similar issuers with similar maturity. However, in case any ISIN of issuer has not traded, the valuation of AT-1 Bonds is currently done based on adjusting spread directly to the benchmark security.

3. In order to improve existing valuation of these bonds and implement the defined waterfall, following is being done:

   i. Form two types of ISINs:
      a) Benchmark ISINs (a non-benchmark ISIN can be linked to only one benchmark ISIN. Currently, SBI ISINs happens to be the benchmark ISINs across all maturities for AT-1 Bonds.)
      b) Non-benchmark ISINs (Will be divided into multiple groups based on similar issuer and similar maturity).
      c) The groups will be decided in consultation with valuation agencies. The two main criteria envisaged to be used here would be Tier 1 / Tier 2 ratings of the ISINs / Issuers, and the spread range in which the group of ISINs / Issuer's trade over the benchmark.

   ii. Take a look back period for trade recognition as under:
      a) 15 working days for benchmark ISINs
      b) 30 working days for non-benchmark ISINs
      c) This will be revised to 7 working days for benchmark ISIN and 15 working days for non- benchmark ISINs from October 01, 2021.

4. If the ISIN gets traded, the traded YTM will be taken for the purpose of valuation. Further, if 1 ISIN of the issuer trades all other ISINs of issuers will be considered as traded but with necessary adjustment of spread to YTM. If none of the ISIN of the issuer gets traded, the trade of similar issuer in the group will be taken to valuation however with necessary adjustment of spread to YTM of similar issuer similar maturity. If none of the ISIN in a group gets traded on any particular day, an actual trade in a look back period will be seen. If there is an actual trade in look back period the security will be considered as traded and valued with necessary adjustment of spread to YTM. According to this valuation will be done based on the trade of issuer, trade of similar issuer and as an additional layer a look back period of is requested. It is confirmed that spread over YTM will be taken without any adjustment of modified duration to call.

5. Further, as the valuation is based on trade during the look back period, it is confirmed that a spread is adjusted to reflect adverse news, change in credit rating, interest rate etc., which has bearing on the yield of ISIN being valued.

6. However, if there is no actual trade of any ISIN of the issuer as well as similar issuer during look back period, the valuation will be done by taking spread over matrix and/or polling in line with the waterfall mechanism prescribed by AMFI.

Points 4, 5 & 6 have been further elaborated in the detailed Annexure I B attached hereto

7. Maturity of 100 years will be adopted for perpetual bond issued by banks. There will be a glide path for these bonds as indicated below. The Deemed Residual Maturity for the Purpose of Calculation of valuation as well as Macaulay Duration for existing as well as new perpetual bonds issued:

Time Period	**Deemed Residual Maturity (Years)**
Till March 31, 2022	10
April 01, 2022 – September 31, 2022	20
October 01, 2022 – March 31, 2023	30
March 31, 2023 onwards	100

the residual maturity will always remain above the deemed residual maturity proposed above.

8. Valuation methodology, as mentioned above, for AT-1 Bonds is to be followed for the valuation of tier II bonds also. Further, the Macaulay Duration is proposed to be calculated as under for Tier II bonds:

Time Period	**Deemed Residual Maturity for all securities (Years)**
April 01, 2021 – March 31, 2022	10 years or contractual maturity whichever is earlier
April 01, 2022 onwards	Actual Maturity

9. Besides, AT-1 bonds and Tier 2 bonds being different categories of bonds, the valuation of these bonds will be done separately (i.e.) ISIN of AT-1 bond traded will not mean that ISIN of Tier-2 bonds of the same issuer have also traded. However, if any issuer does not exercise call option for any ISIN, then the valuation and calculation of Macaulay Duration should be done considering maturity of 100 years from the date of issuance for AT-1 Bonds and Contractual Maturity for Tier 2 bonds, for all ISINs of the issuer.
10. It is confirmed that the Macaulay Duration of ISINs will be calculated based on the deemed residual maturity proposed in para 7 and 8 above to reflect the duration risk.
11. Further, henceforth mutual funds and SIF will disclose both Yield to Call and Yield to Maturity.

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Annexure I B

Illustration for point 4 to 6

ABC and XYZ are similar issuer and similar maturity:

Maturity of ISIN 1 of ABC is near to maturity of ISIN 1 of XYZ & Maturity of ISIN 2 of ABC is near to maturity to ISIN 2 of XYZ

Issuers	**ABC**		**XYZ**		**Valuation of ABC ISIN 1**
Trade	**ISIN 1**	**ISIN 2**	**ISIN 1**	**ISIN 2**	
Traded Today	Y	-	-	-	Take price and arrive at YTM
Traded Today	N	Y	-	-	Take price of ISIN 2 of ABC and compute YTM of ISIN 2. Then adjust the YTM spread of ISIN 1 and ISIN 2 and compute value of ISIN 1 of ABC.
Traded Today	N	N	Y	N	From the price of ISIN 1 of XYZ compute YTM. The spread between YTM of ABC ISIN 1 and XYZ ISIN 1 is to be adjusted to derive YTM of ABC ISIN 1. The spread should further be adjusted to reflect adverse news, change in credit rating, interest rate etc., which has bearing on the yield of ISIN being valued and final YTM and price of the security should be computed.
Traded Today	N	N	N	Y	From the price of ISIN 2 of XYZ compute YTM of ISIN 2 of XYZ. Then derive YTM of ISIN 1 of XYZ by adjusting spread of YTM. Then by adjusting difference in spread between ISIN 1 of XYZ and ISIN 1 of ABC trade (which happens to be nearest maturity) arrive at YTM of ISIN 1 of ABC. The spread should be adjusted to reflect adverse news, change in credit rating, interest rate etc., which has bearing on the yield of ISIN being valued.
No trade today. Check for actual trade during look back	Y	-	-	-	Take YTM of traded day and adjust spread to the movement of benchmark ISIN over the period. Also adjust to reflect adverse news, change in credit rating, interest rate etc., which has bearing on the yield of ISIN being valued.

Issuers	ABC		XYZ		Valuation of ABC ISIN 1
No trade today. Check for actual trade during look back	N	Y	-	-	Arrive at YTM of ISIN 2 by adjusting spread to the movement of benchmark ISIN over the period. Derive YTM of ISIN 1 of ABC from ISIN 2 of ABC by adjusting spread over YTM. Also adjustment should be done to reflect adverse news, change in credit rating, interest rate etc., which has bearing on the yield of ISIN being valued.
No trade today. Check for actual trade during look back	N	N	Y	N	Arrive at YTM of ISIN 1 of XYZ by adjusting spread to the movement of benchmark ISIN over the period. Then the spread of YTM of XYZ ISIN 1 and ABC ISIN 1 is to be adjusted to arrive at YTM of ISIN 1 of ABC. Also, adjustment will be done to reflect adverse news, change in credit rating, interest rate etc., which has bearing on the yield of ISIN being valued.
Trade	**ISIN 1**	**ISIN 2**	**ISIN 1**	**ISIN 2**	
No trade today. Check for actual trade during look back	N	N	N	Y	Take YTM of ISIN 2 of XYZ by adjusting spread to the movement of benchmark ISIN over the period. Adjust the spread of YTM of ISIN 1 of XYZ and ISIN 2 of XYZ to arrive at YTM of ISIN 1 of XYZ. YTM of ISIN I of ABC will be derived by adjusting spread of YTM of ISIN 1 of XYZ to ISIN 1 of ABC (which appears to be a nearest maturity to ABC ISIN 1). Further, YTM will be adjusted to reflect adverse news, change in credit rating, interest rate etc., which has bearing on the yield of ISIN being valued.
Not Traded During look back	N	N	N	N	Valuation will be done considering spread over matrix and/or polling in line with the waterfall mechanism prescribed by AMFI.

Note: The duration to call shall not be considered/adjusted to spread over YTM. Yield to Call and Yield to Maturity shall be disclosed to investors.