

VALUATION COMMITTEE

MINUTES OF THE MEETING FOR JULY 2020.

3rd August 2020 11:00 AM

- **Perusal of Valuations as on 31st July 2020 (hosted on Website)**
- **Identification of Nodal Points for the month of August, 2020**
- **Identification of liquid securities for short selling in GOI Securities.**

3rd August 2020 04:30 PM

- **Approval of Corporate bond Spread Matrix (including ATI Bonds as of 31st July 2020)**
- **Identification Representative Issuers for the month of July, 2020**
 - **Fixed spread for Corporate Bonds rated below AA-**

**FIXED INCOME MONEY MARKET AND DERIVATIVES
ASSOCIATION OF INDIA**

(Prepared by M/S Akash Surana & Deepika Rathod)

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In continuation of the partial lockdown and maintenance of social distancing, it was decided to continue holding virtual meeting for July 2020 as well. In view of the holiday on 1st August, a virtual meeting of select market participants through video / audio conferencing (ZOOM - application) was held on 03rd August 2020 in two parts, one for G Securities and related matters at 11:00 Hrs and another for Corporate Bond valuation matrix and related matters at 4:30 PM .

For G Securities, the data chosen was from 29/6 to 30/07/2020. All other agenda items usually forming part of a valuation committee meeting viz. GSEC nodal point identification, etc were prepared as per methodology document in consultation with FBIL. These items were earlier sent to Market participants and there were no observations.

A) Val.Com. meeting for G Securities – 3rd August 2020 at 11:00 Hrs.

List of Participants for the meeting over video conferencing:

Sr. No	Name (Mr./Ms.)	Designation	Institution	Email id
1	D.V.S.S.V. Prasad	CEO	FIMMDA	ceo@fimmda.org
2	R.N. Kar	CEO	FBIL	ceo@fbil.org.in
3	P Das Gupta	DY CEO	FIMMDA	dyceo@fimmda.org
4	Sarbeswar Lenka	DY CEO	FBIL	dyceo@fbil.org.in
5	Suraj		SBI	
6	Kalpesh Badgujar		STCI PD	kalpesh2@stcipd.com
7	Arnab Chakravarti		ICICI Bank	arnab.chakravarti@icicibank.com
8	Abhijit Vakharkhar		ICICI Bank	abhijit.vakharkhar@icicibank.com
9	Ramandeep Kaur	AM	FIMMDA	gsec@fimmda.org
10	Akash Surana	AM	FIMMDA	productdevelopment@fimmda.org
11	Anisha Gawde	AM	FIMMDA	valuation@fimmda.org

G-Sec:

1. Identification of Nodal Points for the Month of August, 2020

As per the traded data (NDS-OM + Reported Deal and NDS-OM alone) for the month of July, 2020 from 29/06/2020 to 30/07/2020 we identified the following Nodal Points for inputting into the Cubic Spline Model for generation of G-Sec YTM Curve for Day End Valuation for the month of August 2020.

Maturity year	Coupon (%)	Maturity Date
2021	6.17	15-Jul-21
2022	6.84	19-Dec-22
2023	7.68	15-Dec-23
2024	6.18	04-Nov-24
2025	5.22	15-Jun-25
2026	7.27	08-Apr-26
2027	6.79	15-May-27
2028	7.17	08-Jan-28
2029	6.45	07-Oct-29
2030	5.77	03-Aug-30
2031	6.68	17-Sep-31
2032	7.95	28-Aug-32
2033	7.57	17-Jun-33
2034	6.19	16-Sep-34
2035	7.40	09-Sep-35
2039	6.83	19-Jan-39
2046	7.06	10-Oct-46
2050	7.16	20-Sep-50
2051	6.62	28-Nov-51
2060	7.19	15-Sep-60

- **05.77 GS 2030 will continue to be nodal Point though 05.79 GS 2030 is the highest traded security in that tenor as issuances of 05.77 GS 2030 is expected to increase.**
- **7.06 GS 2046, though not qualifying the trade* volume filter criteria will continue to be nodal point due to the long gap between 2039 tenor and 2050 tenor so as to ensure smoothness in the yield curve.**

2. Daily Filter criteria for considering Level 1 inputs for yield curve generation:

Daily Filter criteria for considering Level 1 inputs shall be as under: -

The minimum number of trades for the security should be **0.4786%** (previous month 0.6250%) of the most traded bond on a particular day and the minimum volume should be **0.6367%** (previous month 0.3702%) of the most liquid bond on a particular day subject to a maximum of 2 trades and Rs.10 crores for tenors 15 year and beyond.

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The ratios are calculated based on "3 Month Moving Average" as discussed and decided in the valuation committee meeting dated 1st October, 2014.

For calculating the ratio, the no. of trades and volume during previous month of "nodal security" having minimum volume* No. of trades and of a "nodal security" having maximum volume* no. of trades have been considered.

The model prices/ yields are replaced by LTP/LTY in case of all securities.

3. Identification of Liquid Securities for Short Selling in Government Securities:

The list of liquid securities is to be provided by FIMMDA on monthly basis. The following liquid securities (previous month volume more than Rs.5000 Cr and number of trades more than 1000) identified for the month of Aug 2020 (from Aug 5, 2020 to Sep 4, 2020) were approved:

07.32 GS 2024
06.18 GS 2024
05.22 GS 2025
07.27 GS 2026
07.17 GS 2028
07.26 GS 2029
06.45 GS 2029
05.79 GS 2030
07.57 GS 2033
06.19 GS 2034

*******End of document for G Securities*******

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B) Valuation Committee meeting 3rd August 2020- 4:30 PM - Corporate Bond Matrix and related matters.

List of Participants for the meeting over video conferencing on 03rd August 2020:

Sr. No	Name (Mr./Ms.)	Designation	Institution	Email id
1	D.V.S.S.V. Prasad	CEO	FIMMDA	ceo@fimmda.org
2	P Das Gupta	DY CEO	FIMMDA	dyceo@fimmda.org
3	V P Bansal		PNB	nonslr@pnb.co.in
4	Ganpat Lal Phulwary		PNB	nonslr@pnb.co.in
5	Arpit Sarawagi	VP	IndusInd Bank	Arpit.sarawagi@indusind.com
6	Manish Anand	DGM	SBI	nslr.irm@sbi.co.in
7	AGM	SBI	AGM	Arafath.a@sbi.co.in
8	Arnab Chakravarti	SGM	ICICI Bank	arnab.chakravarti@icicibank.com
9	Sherin Panakkal	AGM	ICICI Bank	sherin.panakkal@icicibank.com
10	Abhijit Vakharkhar	Chief Manager	ICICI Bank	abhijit.vakharkhar@icicibank.com
11	Avishake Choudhary		HDFC Bank	Avishake.Choudhary@hdfcbank.com
12	Trilok Gupta	VP	HDFC Bank	Trilok.gupta@hdfcbank.com
13	Deepali Solanki	Manager	Axis Bank	Deepali.Solanki@axisbank.com
14	Kalpesh Badgujar	Manager	STCI PD	kalpesh2@stcipd.com
15	Ajay Vaidya	Sr. Manager	CBI	smtreasury@centralbank.co.in
16	Namdev Chougule		Federal Bank	namdev@federalbank.co.in
17	Sidhartha		Canara Bank	idmum@canarabank.com
18	Praagy Srivastva	AM	FIMMDA	fimmda@fimmda.org
19	Deepika Rathod	AM	FIMMDA	nonslr@fimmda.org
20	Shiraz Daruwala		FIMMDA	shiraz@fimmda.org

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4. The monthly spread matrix as on 31st July 2020 was discussed and approved by valuation committee members.
5. The difference between the 0.5 years (not polled) and 1 year (polled) traded spreads: Traded Spread between 1 year & 0.5 year.

Month	PSUFI, Banks			NBFCs			Corporates			
	AAA	Min	Max	AAA	Min	Max	AAA	AA+	AA	AA-
July-20	0.00	0.00	0.00	1.05	0.81	1.16				
June-20	0.00	0.00	0.00	1.05	0.81	1.16				
May-20	0.00	0.00	0.00	0.39	0.39	0.39				
Avg 3 months	0.07				0.55					
Avg 6 months	0.00				0.78					
Considered	0.13				0.78					

As per the above analysis, committee members decided to consider average of last 3 months, as the difference between the yield of 0.5 year and 1 year. As a result, the polled yield for 1-year PSU will be deducted by 13 bps to get 0.5-year polled yield (as there was no trade in last 3 months so repeated previous month traded spread). The polled yield for 1-year NBFC/Corp. will be deducted by 78 bps to get 0.5-year polled yield.

This spread will be calculated every month on rolling basis.

6. Selection of Representative Issuers:

Below mentioned list of representative issuers was finalized for the month of August 2020 (To be used for 14-August-2020 and the second fortnight 31-August-2020) based on No. of trades and volume for the period from 01-07-2020 to 29-07-2020.

Rating	Segments	Representative Issuers
AAA	PSU,FI & Banks	(1) IRFC (2) NHAI (3) PGC (4) NTPC
AAA	NBFC	(1)HDFC
AAA	Corporates	(1)RIL
AA+	PSU,FI & Banks	-
AA+	NBFC	-
AA+	Corporates	-
AA	PSU,FI & Banks	-
AA	NBFC	-
AA	Corporates	-
AA-	PSU,FI & Banks	-
AA-	NBFC	-
AA-	PSU,FI & Banks	-

7. Valuation of AT-1 Bonds:

Traded spreads during the month of July 2020 were presented to the members along with the previous month spreads. Total of 36 out of 79 AT1 bonds issued were traded. The AT1 bonds are divided into two categories depending upon (a) Rating up to AA & (b) Rating AA- & below. Each rating category has two tenors viz. Up to 5 years and above 5 years.

For categories with minimum 5 traded ISIN's, outliers were identified using +/- 1 S.D. from the weighted average spread.

The spreads approved for ATI bonds are as under; -

Ratings / Tenors	Up to 5 Years	Above 5 Years
AA & Above	318 (383)	343 (439)
AA- & Below	485 (656)	510 (681)

Note: Figures in brackets are that of last month.

8. Discussion on fixed spread for Corporate Bonds rated below AA- :

In the previous meeting, it was decided that the spreads for bonds below AA- will be reviewed in July end and a decision will be taken to continue /amend the spreads for the forthcoming months. So, FIMMDA analyzed the traded spread over the corresponding G-sec (rating wise & segment wise) for the period from 26-06-2020 to 25-07-2020. The ratings of the bonds were cross checked from NSDL & CRISIL website. The full traded data was presented to the participants.

The methodology appraised to the Valuation Committee was as under w.e.f. 31-12-2018;

- Calculate yields wherever it's blank on the traded data of the exchanges.
- Remove duplicates, Tax free bonds & AT1 bonds & SO (structured obligation) rated issuers. SO rated bonds are now known as CE (Credit enhancement) rated bonds.
- Calculate residual maturity
- Calculate Spread over G-sec of corresponding maturity.
- Arrange segment wise
- Sort as per spreads
- Ignore the trades with negative spreads
- Calculate weighted average spreads
- Calculate standard deviation of spreads
- For A+ rated bonds in all 3 segments - Remove outliers which are away from weighted average by 2 standard deviations
- For bonds below A+ the trades were few and so calculation of weighted average spreads

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with standard deviation (SD / SD2) was not found possible. Median for all bonds rated below A+ is taken.

- For PSU,FI & Banks segment remove subordinate tier II bond / Compliant bonds

It was decided by the committee to fix the fixed spreads as per the traded spreads (after rounding of). Wherever, there was no traded data, or traded spreads were found to be far away from the trend, the gaps were filled in by simple interpolation.

Analysis of Traded Spreads (Over G-Sec) of bonds rated below AA-

(26-June 2020 to 25-July-2020)

Segment / Ratings	PSU FIs & Banks	Diff. over AA-	Corporates	Diff. over AA-	NBFCs	Diff. over AA-
AA-	NA (537)		481 (455)		528 (706)	
A+	414 (358)	56 (-179)	NA (824)	NA (369)	780 (721)	252 (15)
A			NA (669)	NA (214)	944* (836)	416 (130)
A-			963* (872)	482 (417)	681* (834)	153 (128)
BBB+					NA (1580)	NA (874)
BBB			1318* (NA)	649 (NA)		
BBB-						

Note: Figures in brackets are spreads of last quarter (26th March to 25th June 2020).

* Marked trades were ignored as those trades were not inline.

Based on the above analysis, the fixed spreads were decided as under:

SPREADS OVER AA- FOR BONDS RATED BELOW AA-

RATIN G	FIMMDA Spreads as existing on 31/07/2020			SPREADS DECIDED IN THE MEETING		
	PSU FIs & Banks	Corporates	NBFCs	PSU FIs & Banks	Corporates	NBFCs
AA-	As arrived at the end of each month					
	----- Add following spreads to AA- Spreads -----					
A+	75	100	100	100	150	200
A	100	150	150	125	175	225
A-	150	200	225	150	250	275
BBB+	200	225	250	200	275	300
BBB	225	250	275	225	300	325
BBB-	250	275	300	275	350	375



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The above spreads approved by Valuation Committee members will be valid for the month of August 2020 and September 2020.

The meeting concluded with a vote of thanks to the Valuation Committee members for their participation.

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