

VALUATION COMMITTEE

MINUTES OF THE MEETING FOR OCTOBER 2020.

31st October 2020 03:00 PM

- **Perusal of Valuations as on 29th October 2020 (hosted on Website)**
 - **Identification of Nodal Points for the month of November, 2020**
 - **Identification of liquid securities for short selling in GOI Securities.**
- **Approval of Corporate bond Spread Matrix (including ATI Bonds as of 29th October, 2020)**
 - **Identification Representative Issuers for the month of November, 2020**
 - **Identification 0.5 year spread for the month of November, 2020**

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

(Prepared by M/S Akash Surana & Praagy Srivastava)

FIMMDA: Valuation Committee Meeting

Due to continuation of the partial lockdown and maintenance of social distancing, it was decided to continue with holding month end valuation committee in virtual mode for the month of October 2020 as well.

A virtual meeting of select market participants through video / audio conferencing (ZOOM – application) was held on 31st October 2020 for discussion and finalization of G-Sec Nodal point securities, liquid securities eligible for short selling, daily filter criterion for identification of securities for curve generation and items for Corporate Bond valuation matrix and related matters.

For G Securities, the data chosen was from 30/09 to 28/10/2020. All other agenda items usually forming part of a valuation committee meeting viz. GSEC nodal point identification, etc. were prepared as per methodology document. These items were earlier circulated to Market participants and FBIL and there were no observations.

A) Val.Com. meeting for G Securities and Corporate Bonds – 31st October 2020 at 03:00 Hrs.

List of Participants for the meeting over video conferencing:

Sr. No	Name (Mr./Ms.)	Designation	Institution	Email id
1	N S S Moni	EVP	SBIDFHI	evp@sbidfhi.com
2	Ravindra Gandrakota	CEO	FIMMDA	ceo@fimmda.org
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7	Namdev Chougule		Federal Bank	namdev@federalbank.co.in
8	Kaumudi Mankar	MANAGER	Bank of Maharashtra	midoffice@mahabank.co.in
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10	Atul Joshi		HDFC Bank	
11	Nistha Chopra		Axis Bank	Nistha.chopra@axisbank.com
12	Manish Anand		SBI	
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14	Harsh Chitlangia			
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16	N Arun Das	MANAGER	IDBI Bank	nabaudayan.das@idbi.co.in
17	Rajasekhar Ambati		Union Bank of India	gmtreasury@unionbankofindia.com

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19	Rakesh Jha			
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21	Srikant Mohanty			
22	Trilok Gupta	VP	HDFC Bank	Trilok.gupta@hdfcbank.com
23	Vinay Jhalani			
24	Rakesh Prasad		UCO Bank	bo.treasury@ucobank.co.in
25	Praagy Srivastava	AM	FIMMDA	fimmda@fimmda.org
26	Deepika Rathod	AM	FIMMDA	nonslr@fimmda.org
27	Ramandeep Kaur	AM	FIMMDA	gsec@fimmda.org
28	Akash Surana	AM	FIMMDA	productdevelopment@fimmda.org
29	Anisha Gawde	AM	FIMMDA	valuation@fimmda.org
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A. G-Sec

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

As per the traded data (NDS-OM + Reported Deal and NDS-OM alone) for the month of October, 2020 from 30/09 to 28/10/2020 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 November 2020.

Maturity year	Coupon (%)	Maturity Date
2021	6.17	15-Jul-21
2022	6.84	19-Dec-22
2023	8.83	25-Nov-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	6.22	16-Mar-35
2043	9.23	23 -Dec-43
2050	7.16	20-Sep-50
2060	6.80	15-Dec-60

- **07.37 GS 2023 has been replaced by 08.83 GS 2023 based on the trade* volume.**
- **07.40 GS 2035 has been replaced by 06.22 GS 2035 as this was a new security introduced on 29th October and as per methodology document for selection of a new security issued during the month, qualified to be a nodal point.**
- **06.83 GS 2039 has been removed as Nodal Point as it did not fulfill the trade*volume Filter criterion.**
- **09.23 GS 2043, though not qualifying the trade* volume filter criteria to be a Nodal Point, but due to the long gap between 2035 tenor and 2050 tenor the committee unanimously agreed to continue the security as a nodal point 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 **0.5541%** (previous month 0.5564%) of the most traded bond on a particular day and the minimum volume should

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be **0.8335%** (previous month 1.1246%) 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.

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 Nov 2020 (from Nov 5, 2020 to Dec 4, 2020) were approved:

05.22 GS 2025
06.45 GS 2029
05.79 GS 2030
05.77 GS 2030
06.19 GS 2034

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

B. Corporate Bonds

1. The spread matrix as on 29th October 2020 was discussed and approved by valuation committee members.
2. 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-
October-20	0.21	0.21	0.21	0.45	0.45	0.45				
September-20	0.13	0.00	0.00	0.60	0.27	0.93				
August-20	0.13	0.00	0.00	0.89	0.66	1.11				
Avg 3 months	0.16				0.65					
Avg 6 months	0.08				0.71					
Considered	0.16				0.65					

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. In the previous two preceding months (September and August) there being no data we repeated the traded spread of 0.13 based on 3-month average.

In the month of October 2020 there was only one instance when both 1 year and 0.5 year traded on the same day and the spread was 0.21. Committee decided to compute the last three months spread by considering 0.21 for October and 0.13 for September and August each. As a result, the polled yield for 1-year PSU will be deducted by 16 bps to get 0.5-year polled yield. The polled yield for 1-year NBFC/Corp. will be deducted by 65 bps to get 0.5-year polled yield.

This spread will be calculated every month on rolling basis.

3. Selection of Representative Issuers:

Below mentioned list of representative issuers was finalized for the month of October 2020 (To be used for 15-November-2020 and the second fortnight 27-November-2020) based on No. of trades and volume for the period from 01-10-2020 to 29-10-2020.

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	-

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AA	NBFC	-
AA	Corporates	-
AA-	PSU,FI & Banks	-
AA-	NBFC	-
AA-	PSU,FI & Banks	-

4. Valuation of AT-1 Bonds:

Traded spreads during the month of October 2020 were presented to the members along with the previous month spreads. Total of 26 out of 83 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	263* (223)	288 (248)
AA- & Below	476* (666)	319 (301)

Note: Figures in brackets are that of last month.

*Median Traded spread

It was deliberated to ascertain by way of sample data the feasibility of presentation of data on AT1 bonds based on shorter Residual maturity instead of up to 5 years and more than 5 years.

5. Discussion of Tier II Bonds (Subordinate Tier II / Compliant Tier II Bonds) (Whether the valuation to be done based on YTC or YTM):

Data was presented to the market participants for 170 Tier II Bonds with data of last traded deal date / yield / price and computation of YTC and YTM.

It was decided that further analysis be made for an extended sample period.

The meeting ended with a vote of thanks to the Valuation Committee members

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