

VALUATION COMMITTEE

MINUTES OF THE MEETING FOR SEPTEMBER 2020.

1st October 2020 11:00 AM

- **Perusal of Valuations as on 30th September 2020 (hosted on Website)**
 - **Identification of Nodal Points for the month of October, 2020**
- **Identification of liquid securities for short selling in GOI Securities.**

1st October 2020 04:15 PM

- **Approval of Corporate bond Spread Matrix (including ATI Bonds as of 1st October 2020)**
 - **Identification Representative Issuers for the month of October, 2020**
Fixed spread for Corporate Bonds rated below AA-

**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 virtual meeting with valuation committee for September 2020 as well.

A virtual meeting of select market participants through video / audio conferencing (ZOOM – application) was held on 1st October 2020 in two parts, one for G Securities and related matters at 11:00 a.m. and another for Corporate Bond valuation matrix and related matters at 4:15 PM.

For G Securities, the data chosen was from 29/08 to 29/09/2020. 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 – 1st October 2020 at 11:00 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
3	R.N. Kar	CEO	FBIL	ceo@fbil.org.in
4	P Das Gupta	DY CEO	FIMMDA	dyceo@fimmda.org
5	Sarbeswar Lenka	DY CEO	FBIL	dyceo@fbil.org.in
6	Kalpesh Badgujar		STCI PD	kalpesh2@stcipd.com
7	Kaumudi Mankar	MANAGER	Bank of Maharashtra	midoffice@mahabank.co.in
8	Arpit Sarawagi	VP	IndusInd Bank	arpit.sarawagi@indusind.com
9	Gouri Shankar Sharma	AVP	IDFC First Bank	gourishankar.sharma@idfcfirstbank.com
10	Kabilan K		Indian Bank	gmtssect@indianbank.co.in
11	Mr. Brajraj		SBI DFHI	midoffice@sbidfhi.com
12	Ramandeep Kaur	AM	FIMMDA	gsec@fimmda.org
13	Akash Surana	AM	FIMMDA	productdevelopment@fimmda.org
14	Anisha Gawde	AM	FIMMDA	valuation@fimmda.org
15	Shiraz Daruwala		FIMMDA	shiraz@fimmda.org

G-Sec:

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

As per the traded data (NDS-OM + Reported Deal and NDS-OM alone) for the month of September, 2020 from 29/08 to 29/09/2020 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 October 2020.

Maturity year	Coupon (%)	Maturity Date
2021	6.17	15-Jul-21
2022	6.84	19-Dec-22
2023	7.37	16-Apr-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
2043	9.23	23 -Dec-43
2050	7.16	20-Sep-50
2060	6.80	15-Dec-60

- **07.68 GS 2023 has been replaced by 07.37 GS 2023 based on the trade* volume.**
- **07.32 GS 2024 has been replaced by 06.18 GS 2024 based on the trade* volume.**
- **06.83 GS 2039 has been added as Nodal Point as it fulfilled the trade*volume Filter criterion.**
- **09.23 GS 2043 has been added as Nodal Point as it fulfilled the trade*volume Filter criterion.**
- **07.06 GS 2046 has been removed as Nodal Point as it did not fulfill the trade*volume Filter criterion.**

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 **0.5564%** (previous month 0.6685%) of the most traded bond on a particular day and the minimum volume should

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be **1.1246%** (previous month 1.1349%) 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 Oct 2020 (from Oct 5, 2020 to Nov 4, 2020) were approved:

06.18 GS 2024
05.22 GS 2025
07.26 GS 2029
06.45 GS 2029
05.79 GS 2030
05.77 GS 2030
06.19 GS 2034

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

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B) Valuation Committee meeting 1st October 2020- 4:15 PM - Corporate Bond Matrix and related matters.

List of Participants for the meeting over video conferencing on 1st October 2020:

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
3	P Das Gupta	DY CEO	FIMMDA	dyceo@fimmda.org
4	Pranav		Bank of Baroda	
5	Arpit Sarawagi	VP	IndusInd Bank	Arpit.sarawagi@indusind.com
6	Manish Anand	DGM	SBI	nslr.irm@sbi.co.in
7	N Arun Das		IDBI Bank	nabaudayan.das@idbi.co.in
8	Arnab Chakravarti	SGM	ICICI Bank	arnab.chakravarti@icicibank.com
9	Padarbinda Patro		AU Bank	padarbinda.patro@aubank.in
10	Abhijit Vakharkhar	Chief Manager	ICICI Bank	abhijit.vakharkhar@icicibank.com
11	Avishake Choudhary		HDFC Bank	Avishake.Choudhary@hdfcbank.com
12	Namdev		Federal Bank	namdev@federalbank.co.in
13	Rajasekhar Ambati		Union Bank	
14	Kalpesh Badgujar	Manager	STCI PD	kalpesh2@stcipd.com
15	Vinay Jhalani			
16	Abhishek Jyotishi			
17	Nistha Chopra		Axis Bank	Nistha.chopra@axisbank.com
18	Roop Kaur		Axis Bank	
19	Yatin Vinekar		I Sec PD	yatin.vinekar@isecpd.com
20	Praagy Srivastva	AM	FIMMDA	fimmda@fimmda.org
21	Deepika Rathod	AM	FIMMDA	nonslr@fimmda.org
22	Shiraz Daruwala		FIMMDA	shiraz@fimmda.org

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1. The monthly spread matrix as on 30th September 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-
August-20	0.00	0.00	0.00	0.60	0.27	0.93				
July-20	0.00	0.00	0.00	0.89	0.66	1.11				
June-20	0.00	0.00	0.00	0.90	0.90	0.90				
Avg 3 months	0.00				0.80					
Avg 6 months	0.00				0.72					
Considered	0.13				0.80					

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 80 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 October 2020 (To be used for 15-October-2020 and the second fortnight 31-October-2020) based on No. of trades and volume for the period from 01-09-2020 to 30-09-2020.

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 September 2020 were presented to the members along with the previous month spreads. Total of 21 out of 82 AT1 bonds issued were traded. The AT1 bonds are divided into two categories depending upon (a) Rating up to

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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	223* (293)	248 (318)
AA- & Below	666* (441)	301 (466)

Note: Figures in brackets are that of last month.

*Median Traded spread

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

For bonds rated below AA-, a fixed spread is added to the AA- spread in each segment and that fixed spread is reviewed by the Valuation Committee once in three months.

FIMMDA have analyzed the traded spread over the corresponding G-sec (rating wise & segment wise) for the period from 26-06-2020 to 25-09-2020. 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 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

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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 September 2020)

Segment / Ratings	PSU FIs & Banks	Diff. over AA-	Corporates	Diff. over AA-	NBFCs	Diff. over AA-
AA-	388 (537)		418 (455)		480 (706)	
A+	395 (358)	7 (-179)	881 (824)	463 (369)	826 (721)	346 (15)
A	492 (668)	104 (131)	NA (669)	NA (214)	716 (836)	236 (130)
A-			NA (872)	NA (417)	834 (834)	354 (128)
BBB+					NA (1580)	NA (874)
BBB			788 (NA)	370 (NA)		
BBB-						

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

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

SPREADS OVER AA- FOR BONDS RATED BELOW AA-

RATING	FIMMDA Spreads as existing on 30/09/2020			SPREADS DECIDED IN THE MEETING		
	PSU FIs & Banks	Corporates	NBFCs	PSU FIs & Banks	Corporates	NBFCs
A-	As arrived at the end of each month					
----- Add following spreads to AA- Spreads -----						
A+	100	150	200	100	150	200
A	125	175	225	125	175	225
A-	150	250	275	150	250	275
BBB+	200	275	300	200	275	300
BBB	225	300	325	225	300	325
BBB-	275	350	375	275	350	375

The above spreads approved by Valuation Committee members will be valid for the month of October 2020, November 2020 and December 2020.

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

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