

FIMCIR/2018-19/002

16<sup>th</sup> April 2018

Dear All,

**Re: Corporate Bond – Publication of daily spread matrix for valuation**

FIMMDA is publishing the spread matrix twice every month – as at end of first Fortnight and last day of the month. There is a demand from the banks/ PDs and insurance companies to publish the spread matrix on a daily basis to enable them to value their portfolio on daily basis. But the submitters expressed inability to submit polls on a daily basis. Hence, after elaborate study of traded data for period over 2 years and discussions with the market participants, a methodology to publish the spread matrix for in between days (between two polling days), based on market yield movement in corporate bonds was finalised. The methodology for calculating the daily yield/spread matrix is put on the FIMMDA website.

The spread matrix as of first fortnight and last day of a month will continue to be calculated based on polls submitted by the 21 identified submitters. On these days, the daily spread matrix will not be published.

We have been publishing the daily Spread matrix on test basis since January 24, 2018. On the basis of satisfactory feedback obtained from the market participants, we will now publish a regular spread matrix on daily basis from 17<sup>th</sup> April 2018 for the previous Mumbai business day.

We hope that FIMMDA daily corporate bond spread matrix will be useful to insurance companies, Banks/PDs who are interested/ required to mark to market their corporate bond portfolio on a daily basis.

FIMMDA will keep reviewing the methodology continuously based on further studies and feedback received from the market participants.

Yours truly,



D. V. S. V. Prasad  
Chief Executive Officer

**Corporate Bond - Methodology for computing daily yield/spread matrix (Version 12<sup>th</sup> April 2018)**

FIMMDA is publishing the spread matrix once in a fortnight. The detailed polling based methodology is given on FIMMDA website. There is a demand from the banks/ PDs and insurance companies to publish the spread matrix on a daily basis to enable them to value their portfolio on daily basis. For publishing the spread matrix for in between days (between two polling days), the following methodology has been approved by the core committee for valuation of corporate bonds and FIMMDA board:-

- 1) All individual trades reported to the exchanges (NSE, BSE, MSE) are obtained from the Exchanges. Trades above Rs.5 Cr and trades in OTC market are only considered. Trades in odd lots and IST trades are ignored.
- 2) For all the traded ISINs, the volume weighted average yield and price (VWAY/VWAP) are calculated after identifying and removing the outlier trades, if any.
- 3) Outlier trades (for 4 and above) are those whose yields lie outside one standard deviation.
- 4) The yields reported to the exchanges are cross checked by calculating yields afresh using the VWAP and cash flow details prepared for each ISIN.
- 5) Market yield change in respect of short (1-3 yrs.) / medium (3-7yrs.) / long tenor (more than 7 yrs.) bonds issued by the selected issuers (based on frequency of trading and homogeneity of yields during the past 6 month period) in PSU and NBFC segments is calculated by comparing the average traded yield as of that day with that of immediately preceding polling day. The difference (+/-) is considered as hardening/ softening of yield as of today as compared to the immediately preceding polling day.
- 6) But, before calculating the average traded yield, outliers, if any, are statistically identified and removed. Outlier traded ISINs (for 4 and above) are those whose yields lie outside one standard deviation.
- 7) Yield matrix (Segment wise/ Rating wise/ Tenor wise) is prepared as of the immediately preceding polling day, using the polled yields. For non-polled tenors, yields are arrived at by interpolation/extrapolation. This table is named Polled yield matrix.
- 8) Market yield change as calculated in Point No.5 is added to the respective values in Polled Yield Matrix, viz. difference in Short term bonds in PSU segment is added to 0.5, 1, 2 and 3 year categories in PSU segment, and so on. For want of eligible issuer in "Corporate" segment, the market yield change in NBFC segment is used for corporate segment also. We call this table Proxy yield matrix.
- 9) Values in Proxy yield matrix are replaced by actual traded yields of bonds issued by the representative issuers. Here, the representative issuers are those identified each month by the valuation committee. We call this table the Daily Yield Matrix.
- 10) From the values in Daily Yield matrix, the respective G-sec par yields (annualised) are deducted to arrive at Spread Matrix for the day. For ratings below AA- the spreads over AA- as fixed by the valuation committee are added. This is the final Daily Spread Matrix which is published (Segment wise/ Rating wise/ Tenor wise).

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