| Month | Chronology of Decisions / Changes given effect to Valuation Methodology in 2012 |
|---|---|
| For the month of **October** -meeting held on 1-Nov-12 | **Discussion on the Disqualification criteria of a Benchmark for <u>G-Securities</u> :** The criterion for G-Securities to become a benchmark for a particular month is 100 trades & 1000 crs. It was also discussed that disqualification criteria of a Benchmark for a particular tenor to become a non-benchmark would be less than 50 trades & 500 Crs. in a month. |
| | **Discussion on the Comparison of Cumulative <u>Corporate Bond</u> spreads for 15 trading days:** FIMMDA would upload a Corporate Bond "traded data" sheet for all bond traded as on Month-end date and 15 days prior thereto. This "traded-data" could be used for Level 1 valuation of Corporate Bonds.<br>However, since there could be misreporting of yields, members were requested to get back to FIMMDA with errors if any, so that this Level 1 valuation could be cleaned and finalized before 31st March, 2013. |
| | |
| For the month of **September** -meeting held on 29-Sep-12 | **Parameters for Fixing 0.5 Years Maturity in <u>Corporate Bonds</u>:** It was decided in the meeting that bonds with residual maturity of less than three months even if traded will be ignored. Traded bonds with residual maturity of four to eight months will be taken for the construction of matrix. If there are no trades in the above mentioned category, or if the spread is higher than that for one year, then one year spread will be repeated for 0.5 category.<br>**Valuation of Corporate Bonds Spread Matrix :** The spreads of CRISIL and FACT ENTRY were discussed and it was decided to continue observing both the values for some more time till refinement is brought about in Fact Entry Matrix. The valuation will be done as per the CRISIL Matrix (uploaded in Month-End file) till such time. |
| | |
| For the month of **August** -meeting held on 1-Sep-12 | **<u>G Sec:</u> Polling for Floating Rate Bond:** It was decided in the meeting that from the month of October, 2012 instead of Polling for the Desired Spreads of FRB's, the Desired Spreads will be fixed by the Valuation Committee Members on the basis of average of last 6/3 T-bill cut offs.<br>**Discussion on Marketable Observable and Tradable Input:** The Committee discussedthe Cubic Spline Valuation Methodology and the "Filter" Criteria for Marketable Observable and Tradable Input (MOT) for Securities other than Benchmarks and Pseudo Benchmarks. It was decided by the Committee that the Filter criteria for Traded Securities will be equally applicable to securities other than the Benchmarks and Pseudo Benchmarks. If a security has not traded sufficiently to pass the "Filter", the traded data plus MOT inputs would be considered for passing the filter and for model inputs/yield substitution. |
| | **<u>Corporate Bond</u> Matrix prepared by Fact Entry (FE):** It was decided that since there are no trades in Banks and Corporates in 0.5 Tenor Category, the average of the traded spreads of PSU&FI's and NBFC will be taken for arriving at 0.5 category spreads.<br>It was also decided by the Valuation Committee that Fact Entry spreads will be displayed on daily basis on the website, and Crisil spread on monthly basis till 1st October, 2012 after which only Fact Entry spread will be published. |
| | |
| For the month of **July** -meeting held on 1-Aug-12 | **<u>G Sec:</u> Discussion on the Oil Bonds definition for recognition of minimum amount traded for valuation purposes:** The Committee discussed on the Oil Bonds definition for recognition of minimum amount traded for valuation purposes. It was decided that the last traded marketable lot will be taken for recognition of day end valuation. |
| | **<u>Corporate Bond</u> Matrix prepared by Fact Entry (FE):** The members compared the CB matrix with that prepared by Crisil. The general opinion was that the matrix prepared by Fact Entry was more realistic. As the daily matrix upto BBB is required by Insurance companies for the valuation of their Unit linked Insurance Products, FIMMDA shall start displaying FE Matrix on daily basis on the website. Members were requested to revert with any discrepancy that they may notice to enable us to fine tune the FE Corporate Bond matrix. |
| | |
| For the month of **June** -meeting held on 30-Jun-12 | **<u>G Sec:</u> Discussion on the Valuation Methodology and Trading Band for Oil bonds to shift from the present valuation to Market Base methodology:** The Committee discussed the possibility of change of Valuation Methodology for Oil Bonds on the basis of a joint representation made by the Oil Marketing Companies. It has been decided to consider their proposal to value Oil bond trading band at +/- 25 bps of the corresponding G-sec par yield and refer the matter to RBI for their consideration. |
| | |
| For the month of **June** -meeting held on 21-June-12 | **<u>G Sec:</u> Discussion on examining the existing methodology for arriving at the "Illiquidity Factor"** which is added to the model generated prices, in the light of the changed market conditions (frequent auctions and OMOs) which distort the model prices with the existing methodology<br>**The following points were discussed:** |
| | |

| | |
|---|---|
| May For the month of **May** -meeting held on 1-Jun-12 | Treatment of HFT portfolio for G-sec in Bank PD's: The Committee discussed on the Treatment of HFT portfolio for G-sec in Bank PD's. It was observed that different Bank PD's followed different practices regarding HFT portfolio. Some Banks have two books for trading, one for their "Bank" department and one for their "PD" department, although there was only one SGL A/c with RBI for the entity.<br>To decide upon the criteria (Amount and Spread) for bids/offers to be placed on the NDS-OM to qualify for "Observable Market Input" for inputting into Cubic Spline Model for Valuation of Government Securities, SDL's and Special Securities:<br>As per IFRS , there are three levels used for Valuation of Securities.<br>1. Actually Traded<br>2. Observable Market Input<br>3. Model calculated.<br>As the number of actually traded securities as per norms are less, we would be using the Observable Market Input for inputting into the Cubic Spline Model for Valuation of G-secs, SDL'S and Specials.<br>The Committee discussed the criteria (Amount and Spread) for bids/offers to be placed on the NDS-OM to qualify for "Observable Market Input" for inputting into Cubic Spline Model for Valuation of Government Securities, SDL's and Special Securities. Following suggestions were made:<br>• It was decided by the Committee that we take NDS-OM Screen shots three times i.e. at 12:00 p.m., 2:00 p.m., and 4:00 p.m. in a day. The minimum bid and offer amount will be 15 crores each with a spread of not more than 10 bps. If this mark is reached FIMMDA will recognize it for inputting into Cubic Spline Model for Valuation of securities.<br>It was decided to send a Circular to all members requesting above quotes to enable better 'fair valuation'. |
| May For the month of **May** -meeting held on 1-Jun-12 | **<u>G sec:</u> Discussion on the Valuation Methodology for SDL/Special Securities to shift from the current 25bps mark up over G-sec Par-yield to Market Based Methodology**<br>The Committee discussed the possibility of change of Valuation Methodology for SDL/Special Securities from the current 25 bps mark-up over G-sec Par-yield to Market Based Methodology. The following suggestions were made:<br>• Moving Average of the Weighted Average yield of all the SDL's for the period of 1 year.<br>• Weighted Average of the Weighted Average of the latest auctioned SDL's.<br>• State-wise Moving Average and Valuation, as per the trades.<br>It was decided to constitute a Working Group consisting of the Banks and PD's on the Board of FIMMDA, ICICI Bank, Kotak Bank, Bank of Baroda, and Bank of India to examine suggestions and suggest a methodology to be approved by the FIMMDA Board, which would then be submitted to RBI for their consideration. Members were requested to send their suggestions by June 8th, 2012 |
| | |
| For the month of **April** -meeting held on 2-May-12 | **<u>G Sec:</u> Relaxation in the Trading Bands for SDL/Special Securities and Securities of residual maturity less than one –year:** The committee was informed about the new circular issued by FIMMDA dated 27th April 2012 on the relaxation in the Trading Bands for SDLs / Special Securities and now this is the part of FIMMDA's Code of Conduct for the Usage of NDS-OM and OTC trades in G Sec, SDL / Special Securities. Also, there will be no Trading Bands for the securities with a residual maturity of less than one year.<br>**Discussion on the Curve Generation for daily valuation on account of illiquidity in the tenors from 1yr to 6yr:** The committee discussed on curve generation for Daily Valuation of Illiquid Securities on the shorter end of the curve. The following suggestions were made:<br>• To use average of "bid-offer" prices for inputting in the model for 2013(1 yrs) and 2015 (3yrs) to get a more Fair-Value Yield curve. |
| | |
| For the month of **February** -meeting held on 1-Mar-12 | **Requesting RBI for a second LAF (REPO) on 31st March 2012 Evening:** The committee was asked for the requirement of second (REPO) LAF on 31st March 2012. The committee was of the view that FIMMDA may approach RBI for a single LAF window after 12 noon, to enable banks to square their surplus/deficit cash positions at the financial year end.<br>Discussion on the Valuation of G-sec with residual Maturity upto 1yr: As NDS-OM uses the "Money Market" formula for pricing the G-secs with maturity less than 6 months, the need for FIMMDA G-sec valuations to follow the same methodology was discussed.<br>In the light of SEBI circular dated 21st February 2012, regarding valuation of debt instrument with maturity upto 60 days, it was felt that this matter may be taken up in the Market Practices Committee.<br>**SDL Valuations to changes w.e.f. FY – 13:** The committee was advised that consequent upon the relaxation given for tradin bands in SDL & Special Securities and Fair Value Measurements moving towards IFRS, the day end valuation of SDLs may no longer be at a "Model" yield mark-up of 25 bps over the G-sec Par Yield.<br>On the contrary the valuations would depend upon auction cut-off of SDL & Special Securities and the actual traded prices in the market from FY 2013.<br>Market participants were advised to take note of this possible forthcoming change in the SDL & Special Securities Valuation methodology in FY 2013. |

| | |
|---|---|
| For the month of **January** -meeting held on 1-Feb-12 | **<u>Corporate Bond:</u> Discussion on the F-TRAC Counter-party Issue of Double Reporting:** While the committee discussed the daily volumes in Corporate Bond markets, it was observed that there may be a case of double reporting on F-TRAC and Clearing Corporation of Exchanges. This is because of the following reasons:<br>1. RBI regulated entities report their trades to FIMMDA<br>2. Non RBI regulated entities trading with RBI regulated entities have to compulsory settle through the clearing corporation of exchanges.<br>3. Thus in such a case, the RBI regulated entity reports twice. Once to FIMMDA and once to the clearing corporation for settlement.<br>The above could be avoided if all entities register with FIMMDA as this would also provide ease of settlement through the STP solution and be better for market transparency.<br>Thus, the committee decided that the members would inform all non members to register with FIMMDA's Platform F-TRAC to avoid the problem of Double Reporting.<br>**Corporate bond REPO:** The CEO informed the committee about FIMMDA's bimonthly meeting with RBI on January 23, 2012 wherein the RBI asked FIMMDA about the reasons for the lack of liquidity in the Corporate Bond Repo market. The Valuation committee members responded that the lack of liquidity is due to lack of participation from other non banking market participants who are generally active in the G Sec repo market. Also the margining requirements may make the funding rate for corporate bond repo trades unviable as banks can borrow at lower rates in the interbank uncollateralized market.<br>**CDS:** In the bimonthly meeting between RBI and FIMMDA held on 23rd January 2012 the RBI wanted a response on the level of preparedness of the market in participating in the CDS market. All members were requested to send their feedback by February 9, 2012. |