

VALUATION COMMITTEE
MINUTES OF THE MEETING

01st April 2020

- **Perusal of Valuations as on 31st March 2020 (hosted on Website)**
 - **Identification of Nodal Points for the month of April, 2020**
- **Identification of liquid securities for short selling in GOI Securities.**
- **Approval of Corporate bond Spread Matrix (including ATI Bonds as of 31st March, 2020)**
- **Identification Representative Issuers for the month of April, 2020.**

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

(Prepared by Deepika Rathod/ Ramandeep Kaur)

FIMMDA: Valuation Committee

Due to Lockdown for containment of COVID 19 it was decided that no in person Valuation Committee meeting would be convened for the month ending March 2020.

A virtual meeting of select market participants through video conferencing was held on 1st April 2020 for discussion and finalization of certain residual items in corporate bond valuation . All other agenda items usually forming part of a valuation committee meeting viz. GSEC nodal point identification, etc are prepared as per methodology document in consultation with FBIL. The data chosen was from 1/3 to 27/03/2020. These items were earlier sent to Market participants and there were no observations . The market participants were informed earlier that no in person meeting will be held due to lockdown and to adhere to instructions for maintaining Social distancing.

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

Sr. No	Name (Mr./Ms.)	Designation	Institution	Email id
1	N S S Moni , Director	SBI DFHI	SBIDFHI	evp@sbidfhi.com
2	D.V.S.S.V. Prasad	CEO	FIMMDA	ceo@fimmda.org
3	P Das Gupta	DY CEO	FIMMDA	dyceo@fimmda.org
4	Trilok Gupta	VP	HDFC Bank	Trilok.gupta@hdfcbank.com
5	Satish Singh	AVP	HDFC Bank	Satish.singh3@hdfcbank.com
6	Arpit Sarawagi	VP	IndusInd Bank	Arpit.sarawagi@indusind.com
7	Arafath A	DGM	SBI	Arafath.a@sbi.co.in
8	N. Arun Das	Manager	IDBI Bank	Nabaudayan.das@idbi.co.in
9	Brajraj K.		SBI DFHI	midoffice@sbidfhi.com
10	Abhijit Vakharkhar		ICICI Bank	abhijit.vakharkhar@icicibank.com
11	Praagy Srivastva	AM	FIMMDA	fimmda@fimmda.org
12	Deepika Rathod	AM	FIMMDA	nonslr@fimmda.org

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

As per the traded data (NDS-OM + Reported Deal and NDS-OM alone) for the month of March, 2020 (1/3 to 27/3/2020) 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 April 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	7.32	28-Jan-24
2025	7.72	25-May-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	7.88	19-Mar-30
2031	6.68	17-Sep-31
2032	7.95	28-Aug-32
2033	7.57	17-Jun-33
2034	7.73	19-Dec-34
2035	7.4	09-Sep-35
2039	6.83	19-Jan-39
2046	7.06	10-Oct-46
2051	6.62	28-Nov-51
2059	7.63	17-Jun-59

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 **0.2260%** (previous month 0.1959%) of the most traded bond on a particular day and the minimum volume should be **0.3731%** (previous month 0.4058%) 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 April 2020 (from April 5, 2020 to May 4, 2020) were approved:

- i. 07.32 GS 2024
- ii. 06.18 GS 2024
- iii. 07.27 GS 2026
- iv. 06.79 GS 2027
- v. 07.17 GS 2028
- vi. 07.26 GS 2029
- vii. 06.45 GS 2029
- viii. 07.57 GS 2033
- ix. 06.57 GS 2033

4. **Corporate Bond Matrix:**

The monthly spread matrix as on 31st March 2020 was discussed and approved by valuation committee members.

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-
March-20	0.00	0.00	0.00	0.12	0.05	0.30				
February-20	0.39	0.39	0.39	0.37	0.04	0.81				
January-20	0.00	0.00	0.00	0.68	0.34	0.94				
Avg 3 months	0.13			0.39						
Avg 6 months	0.06			0.42						
Considered	0.13			0.39						

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. The polled yield for 1-year NBFC/Corp. will be deducted by 39 bps to get 0.5-year polled yield.

0.75 RM NTPC was traded at 5.75% while the polls were at 6.00. The members felt that the correct traded should have been 5.85% and decided to consider the same for preparing the matrix.

This spread will be calculated every month on rolling basis.

5. **Selection of Representative Issuers:**

FIMMDA: Corporate Bond Core Committee

Below mentioned list of representative issuers was finalized for the month of March 2020 (To be used for 15-April-2020 and the second fortnight 30-April-2020) based on No. of trades and volume for the period from 01-03-2020 to 26-03-2020.

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	-

6. Valuation of AT-1 Bonds:

Traded spreads during the month of March 2020 were presented to the members along with the previous month spreads. Total of 21 out of 74 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	299 (187)	322 (210)
AA- & Below	327 (325)	350 (347)

Note: Figures in brackets are that of last month

7. 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: Corporate Bond Core Committee

FIMMDA have analyzed the traded spread over the corresponding G-sec (rating wise & segment wise) for the period from 26-12-2019 to 25-03-2020. 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

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-December 2019 to 25-March-2020)

Segment / Ratings	PSU FIs & Banks	Diff. over AA-	Corporates	Diff. over AA-	NBFCs	Diff. over AA-
AA-	403 (310)		350 (301)		403 (381)	
A+	332 (410)	-71 (100)	537 (NA)	187 (NA)	469 (468)	66 (87)
A	427 (388)	24 (78)	220 (485)	-130(184)	647 (NA)	244 (NA)
A-	NA (891)	NA (581)	1065(584)	715(283)	681 (NA)	278 (NA)
BBB+					800 (530)	397 (149)
BBB						
BBB-						

Note: Figures in brackets are spreads of last quarter (26th December 2019 to 25th March 2020)

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 31/03/2020			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	75	100	100
A	100	150	150	100	150	150
A-	150	200	225	150	200	225
BBB+	200	225	250	200	225	250
BBB	225	250	275	225	250	275
BBB-	250	275	300	250	275	300

The fixed spreads approved by Valuation Committee members is valid for next 3 months' fortnightly matrix but considering the unusual circumstances due to COVID 19 the financial market is subjected to it was decided that in the instant case a review would be made at the valuation Committee meeting after the last trading day of April2020 .

Mr D.V.S.S.V. Prasad announced that he will be shortly demitting the office of CEO FIMMDA, and so the meeting held on 1st April would be his last meeting with Valuation Committee members.

The members participating in the meeting recorded their appreciation for the service rendered by Mr. Prasad during his tenure as CEO FIMMDA and thanked him profusely.

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

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