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FIMCIR/2020-21/ 030

Date: 30-March-2022

To

ALL FIMMDA MEMBERS

Dear All,

Re: VALUATION OF INVESTMENTS UPDATED as on 31st March 2022.

In accordance with the RBI instructions, as contained in FIMMDA issues collated regulatory guidelines / clarifications issued from time to time and due market consultations where applicable, in respect of valuation of investments as on 31st March every year.

These Guidelines on Valuation of Investments were last issued vide circular dated 31-03-2021.

RBI had issued latest Master Direction - Classification, Valuation and Operation of Investment Portfolio of Commercial Banks (Directions), 2021, vide Circular No. RBI/DOR/2021-22/81 DOR.MRG.42/21.04.141/2021-22 dated 25th August, 2021(updated upto 23rd March 2022).

Enclosed is the updated version of the guidelines.

Yours truly,

G. Ravindranath
Chief Executive Officer

ANNEXURE

GUIDELINES / CLARIFICATIONS FOR VALUATION OF INVESTMENTS

The market participants should ensure that the valuation of their investment portfolio is in accordance with the directions / guidelines / circulars issued by the Reserve Bank of India both for Banks and Primary dealers with particular reference to:

- i. RBI Master Direction Classification, Valuation, and Operation of investment portfolio by banks dated August 25, 2021 as amended up to date and read with Directions on Prudential Regulation for Banks' Investments and Portfolio Management Services contained in the Master Direction Reserve Bank of India (Financial Services provided by Banks) Direction 2016 issued vide DBR.FSD. No.101/24.01.041/2015-16 dated May 26 2016
- ii. Master Direction – Operational Guidelines for Primary Dealers (Updated as on November 22, 2018)
- iii. RBI/2017-18/146 FMR D. DIRD.7/14.03.025/2017-18 March 31, 2018 on Taking over of publication of daily prices of G-Secs & SDLs by FBIL.

VALUATION OF SECURITIES:

1. Quoted securities:

The 'market value' for the quoted securities shall be the prices declared by the Financial Benchmarks India Pvt. Ltd. (FBIL) in accordance with RBI circular FMRD.DIRD.7/14.03.025/2017-18 dated March 31, 2018, as amended from time to time. For securities whose prices are not published by FBIL, market price of quoted security shall be as available from the trades / quotes on the stock exchanges / reporting platforms / trading platforms authorized by RBI / SEBI and prices declared by the Fixed Income Money Market and Derivatives Association of India (FIMMDA).

1.1 Central Government Securities:

All Central Government securities which qualify for SLR as well as which do not qualify for SLR will be valued as per prices (yields) published by FBIL.

1.2 State Government Securities:

All State Government Securities which qualify for SLR as well as which do not qualify for SLR will be valued as per prices (yields) published by FBIL.

1.3 Treasury Bills:

For Banks and Bank PDs: Treasury Bills will be valued at carrying cost.

For Standalone Primary Dealers:

All securities in AFS and HFT will be valued on mark to market basis.

Traded T-Bills be valued at traded prices; (Minimum Rs. 5 Crs. on the same day).

Non-traded T-Bills to be valued at yields interpolated from T-Bill curve published by FBIL.

1.4 Floating Rate Bonds (Issued by Central Government):

These rates are published by FBIL.

When traded, traded price is to be used for valuation; when not traded MOT (Market observable and Tradable) price, if available, will be taken; and in the absence of above, the model prices are generated as per procedure appearing on FIMMDA's website (under Homepage: / G-sec & Valuations / Valuation of (FRBs <https://www.fimmda.org/modules/content/?p=1029>)). The desired spread added is illiquidity spread, as the coupon is that of short-term T-Bill whereas the bond is to be held for longer tenor. The desired spreads are determined based on polls conducted once in a fortnight. The submitters identified by FIMMDA will submit the polls. The outliers (two STD Deviation) will be eliminated and a simple average of the remaining polls will be taken for consideration as the spread for the FRB concerned.

1.5 Inflation Indexed Bonds:

These rates are published by FBIL.

When traded, traded price is to be used for valuation; when not traded, model prices are generated as per detailed valuation methodology available on FIMMDA's website (under Homepage: /G-sec valuations /Inflation Indexed Bonds). The model price (Real Clean Price) is multiplied by Inflation Index Ratio and Nominal Clean Price is calculated and published.

2. Other Unquoted SLR Bonds / Securities:

a) Central Government Securities:

Unquoted Central Government securities shall be valued on the basis of the prices/ YTM rates put out by the Financial Benchmark India Pvt. Ltd. (FBIL).

b) State Government Securities:

State Government securities shall be valued on the basis of the prices/ YTM rates put out by the Financial Benchmark India Pvt. Ltd. (FBIL).

c) 'Other approved' securities:

Other approved securities shall be valued applying the YTM method by marking it up by 25 basis points above the yields of the Central Government Securities of equivalent maturity put out by FBIL.

3. Valuation of Unquoted Non-SLR:

Debentures/ Bonds:

- (a) All debentures / bonds shall be valued on the YTM basis
- (b) Debentures / bonds shall be valued by applying the appropriate mark-up over the YTM rates for Central Government Securities as put out by FBIL/FIMMDA.
- (c) The mark-up applied shall be determined based on the ratings assigned to the debentures/ bonds by the credit rating agencies and shall be subject to the following:
 - i. The mark up shall be at least 50 basis points above the rate applicable to a Government of India security of equivalent maturity for rated debentures/ bonds.
 - ii. The rate used for the YTM for unrated debentures/ bonds shall not be less than the rate applicable to rated debentures/ bonds of equivalent maturity. Provided that the mark-up for the unrated debentures/ bonds should appropriately reflect the credit risk borne by the bank.
 - iii. **Where the debentures/ bonds are quoted and there have been transactions within 15 days prior to the**

valuation date, the value adopted shall not be higher than the rate at which the transaction has been recorded on the Exchanges / trading platforms/ reporting platforms authorized by SEBI/RBI.

I. TRADED BONDS:

As per RBI Master Direction – Classification, Valuation and Operation of Investment Portfolio of Commercial Banks dated August 25 2021, “Where the debentures/ bonds are quoted and there have been transactions within 15 days prior to the valuation date, the value adopted shall not be higher than the rate at which the transaction has been recorded on Exchanges/trading platforms/reporting platforms authorized by SEBI/RBI.”

FIMMDA’s role for providing traded prices (in compliance of the RBI guideline)

In order to obviate the need to refer to websites of different Exchanges, FIMMDA consolidates and puts up the following traded data on its website on daily basis.

1. On the working day next to the last trading day Corporate Bond Trades during the last 15 calendar days (Including probable Failed Trades but excluding Inter Scheme Transfer deals done by MFs)” are given.
2. This is a provisional sheet showing the volume weighted average price and volume weighted average yield of a bond traded and reported on the Reporting Platforms of NSE (CBRICS), BSE (ICDM) and MCX SX-FIRST.
3. As decided in the valuation committee meeting held on 01.01.2017 FIMMDA is publishing primary issuance data along with the secondary market trades with a separate remark as ‘secondary/primary’ for valuation purpose.
4. If a bond is traded more than one day during the last 15 calendar days, then the data pertaining to the latest trades are only given.
5. This sheet consolidates all trades in the individual bonds (whether the settlement is T+0, T+1 or T+2) reported on platforms of all three Exchanges.

6. On the third working day after the last trading day, when the fate of T+2 trades will also be known, “Corporate Bond Trades during the last 15 calendar days (Excluding failed trades and Inter Scheme Transfer deals done by MFs)” are given.

This is the final sheet showing the volume weighted average price and volume weighted average yield of a bond traded, reported and settled. Since failed trades and trades which were not finally settled cannot be considered as “trades” only the sheet which contains excluding Failed trades is to be referred to for valuation purpose.

II. NON- TRADED BONDS

(i) RATED BONDS:

SPREAD MATRIX METHODOLOGY:

a) Valuation of Non-Traded Rated CORPORATE Bonds with Rating up to AA-:

- 1) FIMMDA spread matrix is to be used for valuation of bonds which have not traded in the market. The spreads must be added to the base yield corresponding to the residual maturity and not the original maturity. The rated bonds are to be valued by adding the credit spreads to the Par/Base Yield Curve. The Par/Base Yield Curve starts from three-month tenor. For valuation of securities with maturities less than three months, the yield for three-month tenor should be considered. Yield for intermediate tenors for each curve may be arrived at by linear interpolation.
- 2) The Spread Matrix starts from six-month tenor. For valuation of securities with maturities less than six months the spread for six-month tenor should be considered. Spread for intermediate tenors for each curve may be arrived at by linear interpolation.
- 3) For securities where the residual maturity is more than 15 years, the spreads of 15 years should be added to the base yield of applicable maturity.

- 4) Whenever a Corporate Bond is traded and reported, the 'traded spread' (of the weighted average traded yield) of that bond, over the G. Sec Par/Base Yield curve would be used for valuing all other bonds of similar rating of the particular Corporate in the particular traded tenor. (Thus, if AAA bond of 'PFC' maturing in 2025 was traded at a price of Rs. 98.53 with a spread of 68 bps over the G. Sec Par/Base Yield, all AAA rated PFC bonds maturing in 2025 would be valued with a spread of 68 bps over the G. Sec Par/Base Yield, whereas the traded bond would be valued at Rs. 98.53).
- 5) If more than one bond of the particular corporate with the same rating was traded in that tenor, the higher traded spread would be used for valuing all other similar rated bonds of that corporate in that particular tenor. (Thus, if AAA, 8.84 % PGC -2025 was traded with a spread of 57 bps and AAA, 8.40 % PGC - 2025 was traded with a spread of 60 bps all other AAA rated PGC bonds maturing in 2025 would be valued with a spread of 60 bps).

FIMMDA may from time-to-time stipulate different spreads for any specific category, if warranted. **For details of the Spread Matrix Methodology please refer to FIMMDA Website.**

**b) Valuation of Non-Traded Bonds with Rating below AA-
Fixed spreads for bonds rated below AA-:**

The spreads for ratings up to AA- are determined by the traded levels / polls. The spreads for ratings below AA- are determined based on the traded levels of these bonds during the last three months (excluding AT1 bonds, Tax free bonds and SO / CE rated bonds), in the Valuation Committee meeting. These spreads are kept fixed for 3 months.

FIMMDA will announce the fixed spreads to be applied for the next 3 months or period as may be determined in the Valuation Committee Meeting.

(ii) UNRATED BONDS

**(a) BONDS NOT RATED BY A RATING AGENCY BUT A
CORRESPONDING RATED BOND OF THE ISSUER EXISTS**

As per RBI guidelines, the rate used for the YTM for unrated debentures/ bonds should not be less than the rate applicable to rated debentures/ bonds of equivalent maturity. The mark-up for the unrated debentures/ bonds should appropriately reflect the credit risk borne by the bank.

Explanation: Bonds and debentures, which are NOT rated by a rating agency or have become 'unrated' during their tenor, but a corresponding rated bond of the issuer exists, then the unrated bonds will be valued by marking up the credit spread by a minimum of 25% over the equivalent rated long-term bond of the same issuer.

(b) BONDS, DEBENTURES AND PREFERENCE SHARES WHICH ARE NOT RATED BY A RATING AGENCY, AND NO CORRESPONDING RATED BOND OF THE ISSUER EXISTS

The spreads of BBB- for residual tenor marked up by 25 % will be the applicable credit spreads.

(c) BONDS AND DEBENTURES WHICH WERE RATED BY A RATING AGENCY, BUT BECAME UNRATED DURING THEIR TENOR AND NO CORRESPONDING RATED BOND OF THE ISSUER EXISTS

The spreads of BBB- for residual tenor marked up by 25 % will be the applicable credit spreads.

III. BONDS / DEBENTURES HAVING SPECIAL FEATURES:

As per RBI guidelines, the special securities, which are directly issued by Government of India to the beneficiary entities, which do not carry SLR status, may be valued at a spread of 25 basis points above the corresponding yield on Government of India Securities, with effect from the financial year 2008 - 09. At present, such special securities comprise Oil Bonds, Fertilizer Bonds, bonds issued to the State Bank of India (during the recent rights issue), Unit Trust of India, Industrial Finance Corporation of India Ltd., Food Corporation of India, Industrial Investment Bank of India Ltd., the erstwhile Industrial Development Bank of India and the erstwhile Shipping Development Finance Corporation.

1) Floating Rate Bonds (NON SLR):

Floating Rate Bonds are instruments where the coupon rate is variable and is calculated using a certain predetermined methodology. Crucial to the concept of a floating rate bond is the “Benchmark Rate”, which is a market determined interest rate, and would include RBI REPO rate used for the computation of the coupon rate from time to time. The frequency at which the coupon rate is reset is called the reset frequency, while the frequency at which coupon payment takes place is the coupon payment frequency.

Method of Valuation of Floating Rate Bonds:

- a) Compute the forward benchmark rate for each reset date.

Computation of the forward rate:

$$(1 + R_1)^{T_1} \times (1 + F)^{(T_2 - T_1)} = (1 + R_2)^{T_2}$$

Where,

R_1 = zero rate for time T_1 ,

R_2 = zero rate for time T_2 ,

F = forward rate for period $(T_2 - T_1)$ at time T_1

While the above formula is most accurate, an approximation may be made as follows:

$$F = (R_2 \times T_2 - R_1 \times T_1) / (T_2 - T_1)$$

- b) Using the same find the coupon (benchmark plus markup, if any) and the cash flows on the interest payment dates.
- c) Discount these cash flows by any one of the following methods:
 - i. Discount each cash flow using the Zero-Coupon Yields for that cash flow adjusted for the credit spread corresponding to the rating of the bond.
 - ii. Discount each cash flow using the G-Sec YTM for the full residual maturity of the bond adjusted for the credit spread corresponding to the rating of the bond.
The zero-coupon rates may be taken from any recognized source viz. FIMMDA – PDAI, CCIL, etc.

2) MIBOR linked Bonds:

For bonds linked to MIBOR, the Overnight Index Swap (OIS) market quotes will be used to convert MIBOR into fixed rate for the outstanding tenor. The spread over MIBOR (as per the original terms of the issue) will be added to arrive at the notional fixed coupon. Then the bond will be valued similar to a fixed coupon bond and the valuation methodology given above for corporate bonds/debentures should be followed.

3) Bonds with Floor and Cap:

Bonds with a Collar spread of 25 basis points or less will be valued like a fixed coupon bond with the coupon being the average of the cap and floor.

(Rationale: If the Collar spread is small the likelihood of the bond hitting the cap or the floor is higher and the bond would behave like a fixed coupon bond).

For bonds with higher collar spread, the banks should separately value the collar through any recognized model and account for the changes in the P & L account as per rules.

4) Staggered redemption bonds:

A. Staggered redemption bonds would be valued as under:

Approach	Discounting rate	Spreads
Treat as a plain-vanilla bond with residual maturity equal to weighted average maturity of principal flows.	As per weighted average maturity	As per weighted average maturity

B. Floating Rate Bonds with Staggered Redemption:

For valuation follow one of the discounting methods;

- i) As per ZCYC method: refer para 3 (III) 1 c (i)
- ii) using YTM method: Residual maturity equal to weighted average maturity of principal flows.

5) Perpetual Bonds:

For Perpetual Bonds with single/multiple call option, compute the price for all option dates till the longest point on the base yield curve. Use the price which is the lowest for valuing the bond.

- a. The cash flow of the security relating to the longest point on the Government Securities yield curve is to be considered.
- b. If the securities have a Call Option by the issuer and there is a step-up coupon after the call option, the cash flow should be considered with the step-up coupon after considering the regular coupons up to Call Option date.

6) Coupon bearing and non-coupon bearing Deep Discount Bonds:

The coupon bearing Deep Discount Bonds would be valued as:

- i) Zero Coupon Bonds (Without the coupons)
- ii) The individual coupon flows would be valued as Zero-Coupon STRIPS.
- iii) The grossed up present values of (i) + (ii) above would be the price of the coupon bearing Deep Discount Bond at which the bond would be marked to market.

The non-coupon bearing Deep Discount Bonds would be valued as per RBI Master Circular dated August 25, 2021. That is, ZCBs should be shown in the books at carrying cost, i.e., acquisition cost plus discount accrued at the rate prevailing at the time of acquisition, which may be marked to market with reference to the market value. In the absence of market value, the ZCBs may be marked to market with reference to the present value of the ZCB. The present value of the ZCBs may be calculated by discounting the face value using the 'Zero Coupon Yield Curve', with appropriate mark up as per the zero-coupon spreads put out by FBIL / FIMMDA periodically.

7) Commercial Paper

Commercial Paper shall be valued at the carrying cost.

8) Certificate of Deposits:

Certificate of Deposits of tenor less than one year should be valued at carrying cost. For knowing the market value of CDs, the CD yield curve published by FBIL may be used.

9) Bonds with Call and Put Options:

- a) Where bonds have simultaneous call, and put options (on the same day) and there are several such calls & put options in the life of the bond, the nearest date should be taken for Price/YTM calculation.
- b) Only Callable Bonds: Bonds, which are only callable by the issuer, will be valued at the lowest of the value/s as obtained by valuing the security to final maturity (weighted average maturity in the case of staggered redemption) and valuing the security to call option date/s.
- c) Only Puttable Bonds: Bonds puttable by the investor should be valued at the highest of the value/s as obtained by valuing the security to final maturity (weighted average maturity in the case of staggered redemption) and valuing the security to put option date/s.

10) UDAY Bonds and Bonds issued by State Distribution Companies (Discoms) under Financial Restructuring Plan (FRP):

- a) UDAY bonds shall be valued on basis of prices/yields published by Financial Benchmark India Pvt. Ltd. (FBIL).
- b) Bonds issued and serviced by State distribution companies (i.e., when bonds' liabilities are with the state discoms) and which are guaranteed by state governments shall be valued by applying a mark-up of 75 basis points on YTM rates for Central Government Securities of equivalent maturities as published by FBIL.
- c) Bonds issued and serviced by State distribution companies (i.e., when bonds' liabilities are with the state discoms) and which are not guaranteed by state governments shall be valued by applying a mark-up of 100 basis points on YTM rates for Central Government Securities of equivalent maturities as published by FBIL.
- d) Bonds issued and serviced by the State Government (i.e., when bonds' liabilities are with the State Government) shall be valued by applying a mark-up of 50 basis points on YTM rates for Central Government Securities of equivalent maturities as published by FBIL.

**RBI Master direction 25-Aug-2021 CHAPTER-V Valuation of Investments 10 para c(ii)*

11) Zero Coupon Bonds (ZCBs):

(a) ZCBs shall be valued in the books at carrying cost which shall be computed by adding the acquisition cost and discount accrued at the rate prevailing at the time of acquisition, which shall be marked to market with reference to the market value.

(b) In the absence of market value, the ZCBs shall be marked to market with reference to the present value of the ZCB.

Explanation: The present value of the ZCBs may be calculated by discounting the face value using the 'Zero Coupon Yield Curve', with appropriate mark up as per the zero-coupon spreads put out by FIMMDA/FBIL. In case the bank is still carrying the ZCBs at acquisition cost, the discount accrued on the instrument should be notionally added to the book value of the bond, before marking it to market.

**RBI Master direction 25-Aug-2021 CHAPTER – V Valuation of Investments 10 para c (iii)*

12) Tax-Free Bonds:

Tax-Free bonds are to be valued at traded price in case a tax-free bond was traded in the last 15 days. In case of other Tax-Free bonds, the coupon will be grossed up by a factor equal to the income tax rate applicable for the holder. Thereafter, the bond will be valued as any other bond.

The rationale for grossing up coupon is as under:

The price/value of a bond is the present value of future cash flows. The market yield meant for discounting taxable coupon inflows cannot be obviously used for discounting tax-free coupon inflows. So, the option is to gross up the coupon using the applicable tax rate to arrive at taxable coupon. So, if a tax-free coupon is 8% and the tax rate is 33%, then the coupon is grossed up to 11.94%. This grossed up coupon is discounted at the market yield and spread applicable to the issuer segment, credit rating and residual tenor. This logic is tenable if the tax-free bonds give really tax-free income.

Income tax angle to the treatment of tax-free bonds:

Subject to allowances / disallowance Section 14A and Rule 8 D of the Income Tax Act 1961, as amended from time to time.

13) Investment in securities issued by Asset Reconstruction Company (ARC):

- a) Security Receipts issued by Asset Reconstruction Company (ARC) will be valued per Net Asset Value (NAV) as hither to.
- b) PTCs issued by Asset Reconstruction Company (ARC) will be valued using the spread matrix applicable to NBFC category as hither to.

14) Priority Sector PTCs:

Given that PSL-PTCs are also to be included in the ANBC computation by the banks (like the RIDF) and lack of a market-determined valuation mechanics, the Valuation Committee in its meetings during June-Aug 2016 had concluded that PSL-PTC bonds may be valued at book value and recommended to the Board which accepted the same vide its meeting on 29th August 2016.

RBI felt that these instruments still are non-SLR in nature and so, an alternate valuation methodology was suggested and the same is being discussed with them.

15) Basel III Compliant AT1 Perpetual Bonds:

Based on the actual trades in AT1 bonds during a particular month, FIMMDA publishes spreads for AT1 bonds after discussions in the monthly valuation committee meetings. With effect from the month of January 2022, after discussion with Valuation Committee, the spreads are being published for three ratings viz. AA+ & Above, AA and AA- & Below and for three tenor buckets viz. up to 2 years, above 2 years and upto 5 years and above 5 years.

Valuation of AT 1 perpetual bonds will be done based on Yield to First Call (YFC) basis.

Traded bonds spreads (Volume Weighted Average) will be considered for calculation of spreads as above. For all bonds in each rating segment & tenor bracket, volume weighted average will be calculated. The individual spreads so calculated will be pooled for each rating segment & tenor (upto 2 years, above 2 years and upto 5 years and above 5 years) (AA+ and above, AA and AA- & below) and their volume weighted average will be arrived. Total of 6 spreads will be published.

In case there are no trades in any tenor, of a rating, then the spreads prevailing in the other tenor will be considered and suitable mark up applied as decided by the valuation committee.

Note: In view of the difficulties faced by FIMMDA in getting the details of ISIN whenever a new Security is issued, the issuing bank should inform the ISIN details like description, coupon, date of issue (DOI), date of maturity (DOM), date of call/put details, ratings etc. to FIMMDA immediately after the issue has been made.

16) Bonds issued as part of a restructuring of an advance:

Valuation of such instruments is covered under;

- a) RBI Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances Circular No. RBI/2021-2022/104 DOR.No.STR.REC.55 / 21.04.048/2021-22 dated October 1, 2021.
- b) RBI Master Direction - Classification, Valuation and Operation of Investment Portfolio of Commercial Banks (Directions), 2021 Circular No. RBI/DOR/2021-22/81 DOR.MRG.42/21.04.141 /2021-22 dated August 25, 2021.

17) Preference Shares:

Preference shares should be valued as per Master Direction - Classification, Valuation and Operation of Investment Portfolio of Commercial Banks (Directions), 2021 dated 25th August, 2021, Circular No. RBI/DOR/2021-22/81 DOR.MRG.42/21.04.141/2021-22, CHAPTER – V *Valuation of Investments 10 para c (iv)*

18) Priority Sector Bonds:

Priority sector bonds issued by All India Financial Institutions (AIFI) and Public Sector Undertakings should be valued as a PSU/FI 'AAA' rated paper.

19) Securitized Paper:

All Securitized papers would be valued on the basis of the Base Yield Curve and the applicable spreads as per the spread matrix relative to the Weighted Average Maturity of the paper.

20) Unrated Government guaranteed Non-SLR bonds:

Those bonds that are issued outside the approved market-borrowing programme may be valued as follows:

- a) Spreads over the sovereign risk-free yield curve, at the time of issue, will be applicable.
- b) The spread shall be marked up by 15% if the issue is more than 12 months old.
- c) SGL data, available from January 1, 1996 at RBI website (www.rbi.org.in), should be used for arriving at the credit spreads at the time of issue. In case of debenture/ bond issued prior to January 1, 1996 the bonds will be valued at cost.

21) Valuation of Bonds/NCDs issued by NBFCs now converted as Banks:

In the absence of sufficient traded data and also considering the fact that the NBFCs which originally issued the bonds are no more existing, it was decided in the valuation committee meeting held on 04.12.2017 that the bonds will be valued as bonds issued by banks.

22) Valuation of Recapitalization bonds:

Government of India (GOI) issues these bonds to specific banks for specified amounts. These are not transferrable or tradeable. So, these bonds may be valued at par till further instruction or specific Directions received from the Regulators.

23) Investment in Bonds issued by Venture Capital Funds (VCFs):

The investment in the bonds of VCFs, if any, shall be valued as per guidelines prescribed for quoted/unquoted bonds in RBI master Direction, as amended from time to time.

24) Valuation of Municipal Bonds:

Municipal Bond are similar to corporate bond (PSU category). Hence applicable valuation of quoted / unquoted bonds of PSU Category may be followed.

A. VALUATION OF SWAPS:

- a) FBIL publishes the following benchmarks on a daily basis.

- i. FBIL - OVERNIGHT MIBOR
- ii. FBIL - TERM MIBOR
- iii. FBIL – MIFOR
- iv. FBIL – Modified MIFOR
- v. FBIL – MIBOR OIS
- vi. FBIL - Treasury bill
- vii. FBIL - Certificate of Deposits

Where these benchmarks are used for swap transactions, the same will be used for valuing the swap.

b) Valuation of MIFOR Swaps:

- i. MIFOR swaps - These will be valued based on implied values from Modified MIFOR swap curve available.
- ii. Modified MIFOR Swaps - These will be valued based on Modified MIFOR swap curve available.
- iii. For bringing uniformity in the month end valuation, the Banks are suggested to use FEDAI FX swap differences to derive MIFOR/Modified MIFOR up to 1 year.

c) Valuation of Swaption:

As decided till the time a robust valuation methodology is developed in consultation with FBIL. Banks should value outstanding Swaption Contracts in their books based on their respective proprietary model devised and approved by Competent Authorities.

- ❖ *Above guidelines capture updated instructions of regulators for valuation of Investment portfolio.*
- ❖ *Notwithstanding guidelines issued above market participants are advised to ensure meticulous compliance of all extant Regulatory / Government guidelines as applicable while valuing assets in their respective Investment portfolio as on valuation date.*
- ❖ *Till the time the Next Valuation Circular is issued all Regulatory Guidelines issued in interregnum will have precedence over these guidelines.*

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REFERENCES

Sr. No.	Regulators Name	Circular Number
1.	RBI	Master Direction - Classification, Valuation and Operation of Investment Portfolio of Commercial Banks (Directions), 2021, vide Circular No. RBI/DOR/2021-22/81 DOR.MRG.42/21.04.141/2021-22 dated 25 th August, 2021. (Updated as on March 23, 2022)
		RBI Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances Circular No. RBI/2021-2022/104 DOR.No.STR.REC.55 / 21.04.048/2021-22 dated October 1, 2021
		RBI/2017-18/146 FMRD.DIRD.7/14.03.025/2017-18 Taking over of valuation of Government Securities (G-Sec) by Financial Benchmark India Pvt. Ltd. (FBIL) - valuation of portfolios
		Master Direction – Operational Guidelines for Primary Dealers (Updated as on November 22, 2018)