

**DEPUTY GENERAL MANAGER
INVESTMENT MANAGEMENT DEPARTMENT**

SEBI/IMD/CIR No.16/ 193388/2010
February 02, 2010

All Mutual Funds/Asset Management Companies (AMCs)

Sir/Madam,

Sub: Valuation of Debt and Money Market Instruments

1. Please refer to SEBI circular No. MFD/CIR/ 8 / 92 / 2000 dated September 18, 2000, MFD/CIR/14 /088 / 2001 dated March 28, 2001, MFD/CIR/ no 14 / 442 / 2002 dated February 20, 2002 and MFD/CIR/23 /066 / 2003 dated March 7, 2003.
2. The valuation method of debt and money market instruments specified in the aforesaid circulars were discussed in the Advisory Committee of Mutual Funds. With a view to ensure that the value of money market and debt securities in the portfolio of mutual fund schemes reflect the current market scenario, the current provisions regarding valuation of these securities need to be modified, as under:

I. Valuation of money market and debt securities with residual maturity of upto 91 days:

All money market and debt securities, including floating rate securities, with residual maturity of upto 91 days shall be valued at the weighted average price at which they are traded on the particular valuation day.

When such securities are not traded on a particular valuation day they shall be valued on amortization basis. It is further clarified that in case of floating rate securities with floor and caps on coupon rate and residual maturity of upto 91 days then those shall be valued on amortization basis taking the coupon rate as floor.

II. Valuation of money market and debt securities with residual maturity of over 91 days:

All money market and debt securities, including floating rate securities, with residual maturity of over 91 days shall be valued at weighted average price at which they are traded on the particular valuation day. When such securities are not traded on a particular valuation day they shall be valued at benchmark yield/ matrix of spread over risk free benchmark yield obtained from agency(ies) entrusted for the said purpose by AMFI.

III. Valuation of securities not covered under the current valuation policy:

In case of securities purchased by mutual funds do not fall within the current framework of the valuation of securities then such mutual fund shall report immediately to AMFI regarding the same. Further, at the time of investment AMCs shall ensure that the total exposure in such securities does not exceed 5% of the total AUM of the scheme.

AMFI has been advised that the valuation agencies should ensure that the valuation of such securities gets covered in the valuation framework within six weeks from the date of receipt of such intimation from mutual fund.

In the interim period, till AMFI makes provisions to cover such securities in the valuation of securities framework, the mutual funds shall value such securities using their proprietary model which has been approved by their independent trustees and the statutory auditors.

IV. Dissemination of information:

All mutual funds shall provide transaction details, including inter scheme transfers, of money market and debt securities on daily basis to the agency entrusted for providing the benchmark yield/ matrix of spread over risk free benchmark yield. Submission of data would help in daily matrix generation and would improve uniformity and accuracy of valuation in the mutual funds industry. The format in this regard is provided in SEBI Circular No.MFD/CIR/23 /066 / 2003 dated March 7, 2003.

V. Methodology for matrix of spread for marking up the Benchmark yield

In the methodology for pricing the non traded debt securities detailed in para 3(ii)(b) of SEBI Circular. MFD/CIR/ 8 / 92 / 2000 dated September 18, 2000 and para 3 of SEBI circular MFD/CIR/ no 14 / 442 / 2002 dated February 20, 2002, additional duration bucket(s) viz., 0.25- 0.5 yrs shall be provided.

VI. Consistency

All AMC's shall ensure that similar securities held under its various schemes shall be valued consistently.

3. The aforesaid valuation would be applicable with effect from July 1, 2010.

4. SEBI circulars No. MFD/CIR/ 8 / 92 / 2000 dated September 18, 2000, MFD/CIR/14 /088 / 2001 dated March 28, 2001, MFD/CIR/ no 14 / 442 / 2002 dated February 20, 2002 and MFD/CIR/23 /066 / 2003 dated March 7, 2003 stand modified to the aforesaid extent.
5. This circular is issued in exercise of powers conferred under section 11(1) of the Securities and Exchange Board of India Act, 1992, read with the provisions of regulation 77 of SEBI (Mutual Funds) Regulations, 1996 to protect the interests of Investors in securities and to promote the development of and to regulate the securities market.

Yours faithfully,

Asha Shetty