

10 year G-Sec benchmark for the purpose of IRF Margins

(8.79% - 2021 with effect from 21.11.2011)

Please refer:

- 1) SEBI circular No. SEBI/DNPD/Cir- 46/2009 (dated August 28th, 2009 Para 5 **“Initial Margin: For this purpose, the yield for 10-year benchmark GoI security, as published by FIMMDA, shall be used.”**)
- 2) Minutes of the FIMMDA Valuation Committee meeting held on 1st November 2011. (Attached as Annexure I - Benchmarks identified for the month of November 2011)
- 3) Minutes of the FIMMDA Valuation Committee meeting held on 17th July 2009. (Attached as Annexure II)

C.E.S Azariah
Chief Executive Officer

Annexure I

MINUTES OF THE MEETING

(1st November 2011)

- Approve the Valuations as on 31st October, 2011
 - Identify Benchmark Securities for the month of November 2011
- Identification of securities of residual maturities of 1 and 2 years for polling for the one year GOI Swap (INBMK Swap)
 - Identification of liquid securities for short selling in GOI Securities
 - Other Matters

VALUATION COMMITTEE

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

(Minutes prepared by Vasundhara Khajuria)

DISCUSSION PANEL

No.	Name	Institution
1.	Mr. C.E.S. Azariah	CEO FIMMDA
2.	Mr. L. Pattabhiraman	SBI DFHI (Director FIMMDA)
3.	Mr. Deepesh	Syndicate Bank
4.	Mr. Augustine Paul K.J.	The Federal Bank Ltd.
5.	Mr. Kevin D'Souza	Yes Bank
6.	Mr. M.S. Dhamankar	IDBI Bank Ltd.
7.	Ms. Kavita Patil	IDBI Bank Ltd.
8.	Ms. Abilasha G.	ICICI Bank
9.	Mr. K. Murli Mohan	Canara Bank
10.	Mr. Nikhil Upadhyay	Axis Bank
11.	Mr. E.S. Redy	Andhra Bank
12.	Mr. Shyamal Ghosh Ray	Andhra Bank
13.	Mr. Nazir Rozani	STCI PD
14.	Mr. Arvind Gupta	IndusInd Bank
15.	Ms. Shraddha Kothari	Bloomberg
16.	Ms. Arwa Tambawala	FIMMDA
17.	Mr. Aradhya Dwivedi	FIMMDA
18.	Mr. Sanjay Rawat	FIMMDA
19.	Ms. Vasundhara Khajuria	FIMMDA

BACKGROUND:

The Valuation Committee of FIMMDA met on 1st November 2011 for the following matters:

- Approve the Valuations as on 31st October, 2011
- Identify Benchmark Securities for the month of November 2011
- Identification of securities of residual maturities of 1 and 2 years for polling for the one year GOI Swap (INBMK Swap)
- Identification of liquid securities for short selling in GOI Securities

DISCUSSION ON VALUATION FOR THE MONTH OF OCTOBER 2011:

- The Committee went through the trades for the month of October 2011
- The Valuation Committee approved the FIMMDA, PDAI GOI Prices computed as on 31st October, 2011 (Month End).
- The Benchmarks identified for the month of November 2011 are shown in the table below:

Maturity year	Coupon (%)	Maturity Date	Benchmarks
2012	7.40	05/03/2012	Pseudo Benchmark
2013	7.27	09/03/2013	Pseudo Benchmark
2015	7.17	06/14/2015	Pseudo Benchmark
2016	7.59	04/12/2016	Pseudo Benchmark
2017	8.07	01/15/2017	Benchmark
2018	7.83	04/11/2018	Benchmark
2021	7.80*	04/11/2021	Benchmark
2022	8.13	09/21/2022	Benchmark
2027	8.28	09/21/2027	Benchmark
2032	8.28	02/15/2032	Pseudo Benchmark
2040	8.30	07/02/2040	Benchmark

*As a new paper maturing on 8th November 2021, will be auctioned on 4-11-2011, this benchmark (7.80 % GS 2021) will be replaced by the newly auctioned paper.

Identification of securities for polling for the one year GOI Swap:

The Committee selected the one-year benchmark 7.40% GOI 2012 and the two-year benchmark 7.27% GOI 2013 for the polling procedure for valuing the price of a one-year G-Sec for the floating leg of INBMK Swaps.

Identification of liquid Securities for short selling in Government Securities:

With reference to the RBI Circular IDMD.No/11.01.01 (B)/2006-07 dated January 31, 2007 regarding Secondary Market Transactions in Government Securities – Short Selling, the following liquid securities have been identified for short selling for the month of November 2011 with effect from 5th November 2011 to 4th December 2011:

- a) 7.83% GOI 2018
- b) 7.80% GOI 2021*
- c) 8.08% GOI 2022
- d) 8.13% GOI 2022

The above securities have been selected based on the following criteria:

1. Total Volume in the entire month – Rs. 5000 Crores and above.
2. Total number of trades in the entire month – 1000 and above.

The identified securities are subject to review by the Valuation Committee on a monthly basis as on the 1st working day of every month and are based on the norm that they should be liquid on the date of trade.

***Please Note:** participants to exercise due care while dealing with 7.80 GS 2021 as a new security maturing in 2021 is being issued on 04-11-2011. This new security will be added for Short selling w.e.f. 5th November 2011.

Identification of Benchmark Securities for Corporate Bonds for the month of November 2011:

The committee went through the traded data for the month of October, 2011 and selected the following benchmarks for Corporate Bonds for the month of November, 2011. The minimum criteria for the benchmark securities have been kept as the total traded value of Rs. 25 Crores and 5 trades every month. The identified benchmarks for the month of November 2011 are as below:

Corporate Bond Benchmark for the month of November 2011					
Tenor	ISIN	Description	Coupon	Rating	Sector
2016	INE062A09106	STATE BANK OF INDIA	8.85	CRISIL AAA	BANKs

2011	INE002A07742	RELIANCE INDUSTRIES LIMITED	10.1	AAA	CORPORATE
2016	INE895D08329	TATA SONS LIMITED	9.9	CRISIL AAA	CORPORATE
2021	INE941D07125	RELIANCE PORTS & TERMINALS LIMITED	10.4	AAA (CARE)	CORPORATE
2011	INE001A07EK8	HOUSING DEVELOPMENT FINANCE CORPORATION LIMITED	9.9	CRISIL AAA	NBFC
2012	INE115A07718	LIC HOUSING FINANCE LIMITED	7.45	CRISIL AAA	NBFC
2013	INE001A07GB2	HOUSING DEVELOPMENT FINANCE CORPORATION LIMITED	9.45	CRISIL AAA	NBFC
2014	INE001A07HD6	HOUSING DEVELOPMENT FINANCE CORPORATION LIMITED	9.65	CRISIL AAA	NBFC
2015	INE115A07AY5	LIC HOUSING FINANCE LIMITED	9.6	CRISIL AAA	NBFC
2016	INE115A07AV1	LIC HOUSING FINANCE LIMITED	9.9	CRISIL AAA	NBFC
2021	INE001A07HA2	HOUSING DEVELOPMENT FINANCE CORPORATION LIMITED	9.55	CRISIL AAA	NBFC

2011	INE557F09377	NATIONAL HOUSING BANK	6.55	CRISIL AAA	PSU & FI's
2012	INE020B07EU5	RURAL ELECTRIFICATION CORPORATION LIMITED	7.9	CRISIL AAA	PSU & FI's
2013	INE020B07DF8	RURAL ELECTRIFICATION CORPORATION LIMITED	9.45	CRISIL AAA	PSU & FI's
2014	INE261F09FR5	NATIONAL BANK FOR AGRICULTURE & RURAL DEVELOPMENT	9.48	CRISIL AAA	PSU & FI's
2015	INE134E08CW6	POWER FINANCE CORPORATION LIMITED	8.7	CRISIL AAA	PSU & FI's
2016	INE020B08617	RURAL ELECTRIFICATION CORPORATION LIMITED	9.35	CRISIL AAA	PSU & FI's
2017	INE752E07IN3	POWER GRID CORPORATION OF INDIA LIMITED	9.35	CRISIL AAA	PSU & FI's
2018	INE752E07IO1	POWER GRID CORPORATION OF INDIA LIMITED	9.35	CRISIL AAA	PSU & FI's
2019	INE752E07IP8	POWER GRID CORPORATION OF INDIA LIMITED	9.35	CRISIL AAA	PSU & FI's
2020	INE752E07IQ6	POWER GRID CORPORATION OF INDIA LIMITED	9.35	CRISIL AAA	PSU & FI's
2021	INE020B08591	RURAL ELECTRIFICATION CORPORATION LIMITED	9.48	CRISIL AAA	PSU & FI's

2022	INE752E07IS2	POWER GRID CORPORATION OF INDIA LIMITED	9.35	CRISIL AAA	PSU & FI's
2023	INE752E07IT0	POWER GRID CORPORATION OF INDIA LIMITED	9.35	CRISIL AAA	PSU & FI's
2024	INE752E07IU8	POWER GRID CORPORATION OF INDIA LIMITED	9.35	CRISIL AAA	PSU & FI's
2025	INE752E07IV6	POWER GRID CORPORATION OF INDIA LIMITED	9.35	CRISIL AAA	PSU & FI's
2026	INE134E08DS2	POWER FINANCE CORPORATION LIMITED	9.46	CRISIL AAA	PSU & FI's
2027	INE752E07IX2	POWER GRID CORPORATION OF INDIA LIMITED	9.35	CRISIL AAA	PSU & FI's
2028	INE752E07IY0	POWER GRID CORPORATION OF INDIA LIMITED	9.35	CRISIL AAA	PSU & FI's
2029	INE752E07IZ7	POWER GRID CORPORATION OF INDIA LIMITED	9.35	CRISIL AAA	PSU & FI's

Computation of ratios for criteria based selection of LTP's on NDS-OM for daily GOI valuation of a non-benchmark security for the month of November 2011.

For substituting the model prices with the LTPs for a non-benchmark security, the minimum number of trades for the security should be 1.06% of the most traded bond and the minimum amount of volume should be 0.94% of the most liquid bond.

Valuation of State Development Loan and Special Securities (Oil, Fertilizer Bonds) based on last traded prices - Minimum Volume / Minimum Trades.

The criteria to recognize the last traded price/yield of SDL/Special Securities is revised to at least one trade for 5 crores or higher volume. The rationale for this change is because these securities do not trade daily.

Valuation of Securities auctioned, but not traded after auction (E.g.: 8.30-2040 on 28th Oct)

If a security is auctioned, but no trade happens after the auction, then the cut-off price/yield will be considered for the day - end valuation, on the auction date only. From the next day onwards, the "Model Price" will prevail, if no trade takes place.

Method to be used for Amortization of CPs

It was clarified that the market participants can use any of the amortization methods, i.e. straight line method or discounted price method as FIMMDA does not prescribe any particular method. The method used should be uniform and mentioned in the individual Bank's Principal Accounting Policy.

CONCLUSION:

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

Annexure II

MINUTES OF THE MEETING

(17th July 2009)

To put in place a methodology for announcing a 10 year Benchmark G-Sec on a daily basis, to aid margining for the 10-year 7% Notional Bond Future.

VALUATION COMMITTEE
FIXED INCOME MONEY MARKET AND DERIVATIVES
ASSOCIATION OF INDIA

(Prepared by: Arwa Tambawala)

DISCUSSION PANEL

No.	Name	Institution
20.	Mr. C.E.S. Azariah	CEO (FIMMDA)
21.	Ms. Brajraj Krishna	State Bank of India
22.	Mr. S. S. Dixit	Union bank of India
23.	Mr. Kevin DSouza	Yes Bank
24.	Mr. B. S. Hora	SBIDFHI
25.	Ms. Sabita Braganza	STCI PD
26.	Mr. Ankit	ICICI Securities PD
27.	Mr. Soumyo Dutta	Citi Bank
28.	Mr. Anand Bagri	Axis Bank
29.	Ms. Arwa Tambawala	FIMMDA

BACKGROUND:

FIMMDA'S METHODOLOGY IN BRIEF FOR IDENTIFYING BENCHMARK SECURITIES & CHANGE IN METHODOLOGY FOR 10 -YEAR BENCHMARK

1. IDENTIFICATION OF BENCHMARKS: FIMMDA identifies "Benchmark" Securities at the beginning of each month. The methodology used, is to aggregate all the trades, and volume traded daily, for the past month, in each individual security. Thereafter, the Security which has traded the maximum number of trades and the largest volume in a particular maturity year (2010, 2014, 2019, 2039 etc) is selected as a "Benchmark" security for that particular year. A minimum number of 5 trades and Rs 25 crores volumes during the entire month is a minimum criteria for considering whether a security would qualify as a Benchmark. After qualifying, the Valuation Committee makes a judgment call on whether the Security should be taken as a Benchmark, or the number of trades and volumes were just "one- off" trades and keep the Security "Under -Watch".

A sheet showing the Benchmarks identified for July 2009, and the underlying data based on which this was done, is attached.

2. NEED FOR CHANGE IN METHODOLOGY FOR IDENTIFICATION OF 10 - YEAR BENCHMARK G-SEC.

SEBI and RBI have asked us to have a re-look at our identification of 10- year Benchmark at monthly intervals, as the 10-Year Benchmark would now need to be

tracked daily, at 1 ½ hour intervals commencing from 11.00 am till 5 pm, to enable the Exchanges to calculate the VAR Margins, once the 10 -Year Notional Bond Future starts trading .

Recent sharp decline in the trading of the 10-Year Benchmark (6.05 % - 2019) in the month of July ,09, and the sharp pick-up in trading of 6.90% - 2019, after its auction on 13th July 2019 is a case which requires an urgent re-look at our current methodology for identification of Bench-mark securities at Monthly intervals.

As can be seen from the Annexure - 1, 6.90 % - 2019 has exceeded 6.05 % - 2019, both in volumes and number of trades if we study the volume and number of trades for the One Month period 15th June'09 to 14th July '09. However, the Valuation Committee will be changing the Benchmark from 6.05 % - 2019 to 6.90 % - 2019, only after its meeting on 1st August 2009. Tracking 6.05 % -2019, as a 10- Year Bench-mark, therefore becomes meaningless!

To overcome the above difficulty, and to enable a daily intra-day price tracking of the 10 Year Benchmark, the following methodology is now suggested for identifying the 10 -Year Benchmark on a daily basis :

- i) FIMMDA would run a daily programme to gather the Volume and Number of Trades for a period of one month i.e. T-30 to T-1.
- ii) The Volumes and number of trades will be compared for the securities vying for Benchmark status.
- iii) FIMMDA Valuation Committee was asked to lay down parameters, which if crossed by the competing security on any day, would result in replacing the existing 10 Year Benchmark by the new Benchmark.
- iv) The Committee was requested to consider the following parameters :
 - Volume of trades and number of trades
 - Whether a minimum number of trades is required in the old benchmark, for keeping it in the race, once the new security enters the race, even though the one-month volume and number of trades may still qualify the old bench-mark to continue.
 - Whether the competing security would need to cross a minimum thresh-hold of Volumes and trades, to enable it to qualify as a new benchmark.
 - Whether the term to maturity (6 months less or more than exact 10 years) should result in disqualifying the existing benchmark from the zone of consideration.
- v) Once the above parameters are put in place, FIMMDA Office would arrive at the 10- Year Benchmark for the day, and the same would be flashed on it's website, at the end of the day's trading. The new benchmark would become eligible for tracking from T + 1.

DISCUSSION:

The committee debated the above suggestions and decided to adopt a daily review of the 10 year benchmark by calculating the aggregate trades and volumes for the last 5 trading days on a rolling basis. During the discussion it emerged that in order to pronounce a new benchmark during the course of the month certain criteria need to be fulfilled. These are as follows:

1. Issue amount of the new security should be a minimum of Rs. 5000 crores.
2. The new benchmark security should exceed the current benchmark by a minimum of 25% both in volume and number of trades.
3. In case the old and new security do not have a clear difference of 25% in volume and trades, then the security which has more frequency of trades will be selected as a benchmark.
4. The Benchmark security would be selected from a range bound tenor of 9.5 to 10.5 years wherein the security closest to the 10 year tenor would be given priority in terms of selecting the benchmark.

CONCLUSION:

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