

Month	Chronology of Decisions / Changes given effect to Valuation Methodology in 2014
For the month of December -meeting held on 1 Jan 15	<p>Discussion on Polling for Corporate Bond: After detailed discussion the following decisions were taken:</p> <p>1) Rationalisation of segments / categories: It was unanimously felt that the category 'Banks' is no longer necessary. It was introduced when the bank's subordinate debt bonds were traded at a different level. Now the bank bonds are trade on par with any other PSU bonds. Hence, it was decided to merge 'Banks' with 'PSU&Fis' and have only one category called "PSU/FI/Banks".</p> <p>2) Rationalisation of tenors: Presently, the submitters are polling for 8 tenors- 0.5, 1, 2, 3, 5, 7, 10 and 15 years. The tenor 15 years in mostly applicable to Banks/PSU/FI bonds. The tenors 0.5, 2 and 7 year tenor are hardly traded and it is difficult to judge the yields. Hence, it was decided to reduce the polling tenors as under:-</p> <ul style="list-style-type: none"> o For PSU/FI/Banks : 1,3,5,10& 15 years o For other categories : 1,3,5 & 10 years o For other tenors: the spread will be decided on the base on simple interpolation / extrapolation between the polled tenors. <p>3) Miscellaneous issues: Some of the member banks who have been selected as submitters desired that in view of stringent norms for polling, the fixing of corporate bond benchmarks be done only based on traded rates and not on polls. It was explained that since trading is very less and confined to very few securities, for supplementing the traded rates polled rates are necessary. Another member bank told that since banks & PDs hold only about 5% of total outstanding, it is not advisable to take polls from them. It was clarified that banks and PDs contribute significantly in the trading of corporate bonds and hence they have to participate in the polling as per RBI Circular dated 16th April, 2014.</p>
For the month of November -meeting held on 29 Nov 14	<p>Discussions regarding the Benchmark Submitters: CEO informed the participants the status of the Benchmark Committee, the progress made in shifting overnight rates, term money polling, corporate bonds and MIFOR. The list of submitters were shown to the participants. The same will be disclosed on the website along with introduction of the respective Benchmarks and in consultation with RBI.</p>
For the month of October -meeting held on 1 Nov 14	<p>Corporate Bond Matrix: The monthly spread matrix for November 2014 was discussed and approved by members.</p> <p>Discussion with regards to bond rated below AA- : There are 6 ratings till BBB-. Presently, for bonds rated below AA-, a fixed spread is added to the AA- spread (segment wise) to arrive at the spread for the bond concerned on the basis of valuation committee decision on 01st August, 2014 for a period of 3 months till end October valuation.</p> <p>In October, FIMMDA have analyzed the traded spread over the corresponding G-sec for July, August, September and October (till 22/10/2014). The bonds were chosen as per the rating given on the NSE/BSE reporting platforms. The</p>
For the month of September -meeting held on 1 Oct 14	<p>Trades done on Reported Deal Section: It was discussed and decided unanimously in the meeting that considering the time stipulation for reporting the OTC deals on Reported Deals section, they will be considered for valuation, in the absence of sufficient trades on NDS-OM.</p> <p>Modification in the computation of Ratios for criteria based selection of LTPs The Valuation committee members' attention was drawn to the steep rise/fall in the ratios during the last two months. It was explained that while the highest volume is that of 10year Nodal point security, the lowest volume (above Rs.1000 Cr.) security gets, sometimes, skipped because of not meeting the no. of trades criterion (100 trades) and other security with higher volume is considered for computation of the ratio, thereby leading to rise in the ratio and vice-versa. The members felt that the condition of 100 trades and Rs. 1000 Cr volume should not be changed. In order to smoothen the rise/fall, it was decided to calculate the ratio based on "3 month moving average ratio" starting from 1st November, 2014.</p>
For the month of August -meeting held on 30 Aug 14	<p>Corporate Bond:Matrix: It was informed to the members that as discussed and decided in the last valuation committee meeting, the following fixed spreads were considered for the securities rated A+, AA-, BB+,BBB and BBB-. The monthly matrix for September 2014 prepared accordingly was discussed and approved by members.</p> <p>SPREADS OVER AA- FOR BONDS RATED BELOW AA-</p> <p>RATING FIMMDA Spreads As EXISTING on 31/07/2014 RECOMMENDED SPREADS IN THE MEETING w.e.f 31/08/2014</p> <p>AA- As arrived at the end of each month (As of 31-07-2014: 111)</p> <p>----- Add following spreads to AA- Spreads ----</p> <p>A+ 25 25 A 55 50 A- 90 75 BBB+ 130 100 BBB 175 125 BBB- 225 150</p>

Valuation of Tax Free Bonds: The valuation methodology adopted/to be adopted for tax free bonds was discussed in detail. 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. This becomes logical provided the tax free bonds give really tax free income.

Bond price calculator appearing on FIMMDA website: :Long back, in a valuation committee meeting, it was decided to use yield of residual tenor of the bond for discounting the cash flows as the formula in the calculator that FIMMDA provides on the website. But it was found that the calculator on the website still uses zero coupon yields for discounting the cash flows. So, it was decided to change the formula in the calculator to “yield of residual maturity of the bond”for discounting cash flows. It was also revealed that most of the banks use the same method.

For the month of
April -meeting held
on 2 May 14

Status of implementation of measures advised to Benchmark Submitters for strengthening the governance framework. (RBI Circular Dt. 16.04.14)

RBI circular dt. 16.04.14 on governance framework for Benchmark submitters was discussed. The members felt that the modalities to be followed by the Benchmark submitters should be discussed in detail during next meeting and informed to the members.

For the month of
February -meeting
held on 1 March
14

Fixation of FRB Spreads:

When traded, FRBs last traded price will be taken for valuation provided the volume and number of trades meets the filter criteria (3 Trades and 25 Crores). The members’ attention was invited to the report of the committee on financial Benchmarks published by RBI on 7th Feb, 2014 and to their observations on Floating Rate Bonds Para 4.9.1. Non Traded FRBs and their recommendations contained in 4.9.3. It has been decided to restart the polling for the desired spread from the holders of the bonds once in every fortnight for FRBs that are not traded and failed to qualify the MOT criteria. A minimum of 5 polls will be required. The outliers (Highest & Lowest) will be eliminated and a simple average of the remaining polls will be taken for consideration as the spread for the FRB concerned. In case minimum polls are not received then the spreads of the previous fortnight will be repeated till the same is discussed in the next valuation committee meeting.