

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

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 17<sup>th</sup> July 2009.  
(attached as Annexure I)

C.E.S Azariah  
Chief Executive Officer

## Annexure I

### MINUTES OF THE MEETING

(17<sup>th</sup> 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
1.	Mr. C.E.S. Azariah	CEO (FIMMDA)
2.	Ms. Brajraj Krishna	State Bank of India
3.	Mr. S. S. Dixit	Union bank of India
4.	Mr. Kevin DSouza	Yes Bank
5.	Mr. B. S. Hora	SBIDFHI
6.	Ms. Sabita Braganza	STCI PD
7.	Mr. Ankit	ICICI Securities PD
8.	Mr. Soumyo Dutta	Citi Bank
9.	Mr. Anand Bagri	Axis Bank
10.	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 13<sup>th</sup> 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 15<sup>th</sup> June'09 to 14<sup>th</sup> July '09. However, the Valuation Committee will be changing the Benchmark from 6.05 % - 2019 to 6.90 % - 2019, only after its meeting on 1<sup>st</sup> 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 threshold 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.