



*Nurturing Markets,
Widening Horizons*

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FIMCIR/2016-17/14

July 05, 2016

To

ALL FIMMDA MEMBERS

Dear All,

Re: VALUATION OF INVESTMENTS - BONDS HAVING LESS THAN 6 MONTH TENOR

In the draft circular sent on dated March 22, 2016, the methodology for valuation of bonds having less than 6 months was proposed to be amended. But the valuation committee members felt that as they have been valuating these bonds as per the valuation circular of 2015, they may continue to value them in similar manner till 31st March 2016 and the proposed changes may be introduced from the F.Y. 2016-17.

The proposed changes were once again discussed in the valuation Committee meeting on July 1, 2016 and the revised para 2.1.2. (A) with changes is given below;

2.1.2. A)

- a) FIMMDA spread matrix is to be used for valuation of bonds which have not traded in the market. 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.
- b) 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.
- c) Yield and credit spreads for intermediate tenors for each curve may be arrived at by linear interpolation.
- d) 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.
- e) The spreads must be added to the base yield corresponding to the residual maturity and not the original maturity.

The market participants are advised to introduce the same by 30th September 2016, and changes if any required in the software should be got done before the date mentioned above.

Yours truly,

D.V.S.S.V. Prasad
Chief Executive Officer