

Methodology Document: Security Level Valuation for CPCD

Background: CRISIL Funds and Fixed Income Research provides valuations for all outstanding CPCD held by subscribers on a daily basis. These prices are used by various market participants such as AMCs, Insurance Companies, Custodians / Fund Accountants etc. to value their portfolio. This methodology document covers the valuation methodology for CPCD and governance mechanism followed for valuation

Waterfall approach to determine security yields is as follows:

Step 1: SAME ISIN (Primary Re-Issuances & Secondary Trades)

- Volume Weighted Average Yield (VWAY) of the Primary Re-issuances & Secondary trades of minimum 25 crores is considered.

Step 2: Primary Issuances

- Volume Weighted Average Yield (VWAY) of the primary issuances (25 crores or more) for same issuer, similar maturity is considered.

Step 3: Secondary Trades

- Volume Weighted Average Yield (VWAY) of the secondary trades (25 crores or more) is considered for same issuer and similar maturity.
- IST trades are not considered for valuation.

Step 4: Same Issuer with Similar Maturity

- 4A. Volume Weighted Average Yield (VWAY) of the primary issuances for same issuer, similar maturity is considered.
- 4B. Volume Weighted Average Yield (VWAY) of the secondary trades for same issuer, similar maturity is considered.
- (Criteria for **same maturity** is calendar weekly bucket up to 1 month, calendar fortnightly bucket for period greater than 1 month up to 3 months & calendar monthly bucket for period greater than 3 months up to 1 year for CPCD's)

Step 5: Similar Issuer with Similar Maturity

Steps will be followed in the same way as done for same issuer criteria

- 5A. Volume Weighted Average Yield (VWAY) of the primary issuances for similar issuer, similar maturity is considered.
- 5B. Volume Weighted Average Yield (VWAY) of the secondary trades for similar issuer, similar maturity is considered.

- (Criteria for **similar maturity** is calendar weekly bucket up to 1 month, calendar fortnightly bucket for period greater than 1 month up to 3 months & calendar monthly bucket for period greater than 3 months up to 1 year for CPCD's)

Step 6: Construction of Matrices & Spread over Matrices

- Yield Curve is calculated for Benchmark Issuers by using the Waterfall Approach given above. (Polling is conducted in the event of no data related to trades/primary issuances)
- If primary issuance data, traded information, same issuer with similar maturity and similar issuer with similar maturity are not available at ISIN/Issuer/Group level, relevant matrix movement is given to the security for the purpose of valuation.

Step 7: Polling of Security Level Valuation

- Trades reported on FTRAC platform which are outliers (Refer Note 4) are polled from Market participants.
- In case of exceptional circumstances polling may be conducted where the median of polls received from Market participants are used for valuation purpose. (Refer Note 5 and 6)

Notes:

1. Buckets based on residual tenor are as below:

When a trade in same ISIN has not taken place, reference should be taken to trades of either the same issuer or a similar issuer, where the residual tenor matches the tenor of security to be priced. However, as it may not be possible to match the exact tenure, it is proposed that tenure buckets are created and trades falling within such similar maturity be used as per table below.

Residual Tenure of security to be priced	Criteria for Similar Maturity
Upto 1 month	Calendar Weekly Bucket
Greater than 1 month to 3 months	Calendar Fortnightly Bucket
Greater than 3 months to 1 year	Calendar Monthly Bucket

In addition to the above:

- a. In case of market events, or to account for specific market nuances, we can vary the bucket in which the trade is matched or to split buckets to finer time periods as necessary.
 - b. In case of illiquid/ semi-liquid securities, that traded spreads may be used for longer maturity buckets. However, the yield should be adjusted on account for steepness of the yield curve across maturities.
2. Similar issuer do not always refer to issuers which trade at similar yields, but many carry spreads amongst themselves & move in tandem or they are sensitive to specific market factor/s hence warrant review of spreads when such factors are triggered.

Criteria for Similar Issuers: Similar issuers can be determined using one or more of the below parameters:

- a. Issuers within same sector / industry;
- b. Issuers within same rating band;
- c. Issuers with same parent or within same group;

- d. Issuers with debt securities having same guarantors ;

Similar issuers which trade at same level or replicate each other's movements are used in waterfall approach for valuations. However, similar issuer may also be used to trigger the review of spreads for other securities in the similar issuer category basis the trades/news/action in any security/ies within the similar issuer group.

4. Recognition of trades and outlier criteria:

- a. Volume criteria for recognition of trades (marketable lot)

Parameters	Minimum Volume Criteria for marketable lot
Primary	INR 25 cr for both Bonds/NCD/CP/CD and other money market instruments
Secondary	INR 25 cr for CP/ CD, T-Bills and other money market instruments

Trades not meeting the minimum volume criteria i.e. the marketable lot criteria as stated above shall be ignored.

- b. Outlier criteria

The following criteria shall be used by valuation agencies in determining Outlier Trades:

Outlier Criteria (CPCD/CPCDs)	Bps Criteria (Yield Movement over previous day yield after accounting for yield movement Matrix)		
	Upto 15 days	15-30 Days	Greater than 30 days
Liquidity Classification			
Liquid	30	20	10
Semi-Liquid	45	35	20
Illiquid	70	50	35

5. Exceptional circumstances would be stale spreads, any event/news in particular sector/issuer, rating changes, high volatility, corporate action or such other event as may be considered by valuation agencies. (Stale spreads are defined as spreads of issuers which were not reviewed/updated as per the waterfall approach in the last 6 months).

As per SEBI guidelines following events may be considered exceptional events:

- I. Monetary Credit Policy
- II. Union Budget
- III. Government borrowing / Auction days
- IV. Material Statements on Sovereign rating
- V. Issuer or Sector specific events which have a material impact on yields
- VI. Central Government election days
- VII. Quarter end days

Note: In addition to the above, valuation agencies may determine any other event as an exceptional event. All exceptional events along-with valuation carried out on such dates shall be documented with adequate justification.

Governance mechanism

CRISIL has an internal committee comprising of President, Senior Director/s, Director/s and Associate Director/s which has following role as provided below.

- **Criteria Committee:** Valuation policy and any changes to such policies are discussed with the committee and are incorporated post approval by the committee.
- **Valuation Committee:** Matters pertaining to exceptions, mentioned above, are discussed with valuation committee and acted upon based on its feedback.

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