

Corporate Debt Market Development Fund

(CDMDF)

**Registered under Chapter III-C of Securities and Exchange
Board of India (Alternative Investment Funds) Regulations, 2012**

Valuation Policy

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VERSION

1.00

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A. SCOPE OF THE POLICY

As per framework for Corporate Debt Market Development Fund (CDMDF) issued by SEBI vide circular no SEBI/HO/IMD/PoD2/P/CIR/2023/128 dated 27th July 2023, Valuation of portfolio of CDMDF shall be governed by existing norms on valuation under the Mutual Fund regulatory framework.

The investment Valuation Policy aims to provide broad valuation guidelines / methodologies to be followed for valuing each type of securities / assets held by the Fund. The assets held by the Fund will be consistently valued according to the established valuation policies and procedures. The policies will also describe the process to deal with exceptional events where market quotations are no longer reliable for a particular security.

Investment in new type of securities shall be made only after the valuation guidelines for such securities are established and approved by the Board of the SBI Funds Management Limited (AMC), the Board of Directors of SBI CDMDF Trustee Private Limited and the Governance Committee.

Any introduction / modification / changes in the Valuation Policy for a new or an existing asset type shall be approved by the Valuation Committee, the Board of Directors of SBI Funds Management Limited, the Board of Directors of SBI CDMDF Trustee Private Limited and the Governance Committee and incorporated thereafter in the Valuation Policy.

The valuation of investments shall be based on the principle of fair valuation i.e., valuation shall be reflective of the realizable value of the securities / assets.

If established valuation policies and procedures do not result in fair / appropriate valuation, the AMC may deviate from the established valuation policies and procedures to value the assets / securities at fair value. Any deviation from the disclosed valuation policy and procedures may be made with appropriate reporting to Board of Trustees and the Board of AMC and appropriate disclosure to investors.

In case of any conflict between the Principles of Fair Valuation and the established Valuation Policies and Procedures, the Principles of Fair Valuation will prevail.

B Valuation Committee

All decisions pertaining to valuation, in conformity with the policy guidelines, shall be taken by the Valuation Committee. The constitution of the Valuation Committee is as under:

Constitution:

The Valuation Committee will comprise of the following members:

- Chief Operating Officer
- Chief Risk Officer
- Chief Compliance Officer
- Head Operations
- Fund Managers / Chief Investment Officer
- Designated Officers from Risk, Investments, Compliance and Operations

Frequency of Valuation committee meeting:

The Valuation Committee shall meet on a quarterly basis or more often, if required to deliberate on specific proposals.

Functions of the Valuation committee:

- to provide guidelines on valuation within the regulatory framework,
- to decide on specific cases as may be raised to the Committee,
- to appoint/recommend the appointment of third-party agencies for valuation,
- to evaluate the performance of such agencies on a periodic basis,
- to review the valuation policy,
- to detect and prevent incorrect valuation,
- to address areas of conflict of interest and thereafter recommend changes if any in policy/methodology. Any such conflict also to be referred to the Governance Committee.

C. Periodic Review

Review by Valuation Committee: The policy shall be reviewed annually or more frequently, if required, by the Valuation Committee either due to change in Regulations or business environment to ensure the appropriateness and accuracy of the methodologies used and its effective implementation in valuing the securities / assets.

Review by an Independent Auditor: The valuation policies and procedures shall be regularly reviewed (at least once in a Financials Year) by an independent auditor to ensure their continued appropriateness.

Review by the Board of Trustee, the Board of AMC and the Governance Committee: The Board of Trustee and the Board of AMC shall be updated about the review of valuation policy by the Valuation Committee and by an Independent Auditor along with the changes / development in the valuation policies at least once in a Financials Year.

D. Record Keeping

All the documents which forms the basis of valuation (the approval notes & supporting documents) should be maintained in electronic form or the physical papers.

Above records will be preserved in accordance with the norms prescribed by the SEBI regulations and guidelines.

Following SEBI Circulars / Guidelines / Amendment Regulations are considered for framing the Valuation Policy

1. EIGHTH SCHEDULE OF SEBI (MUTUAL FUNDS) REGULATIONS,1996 as amended.
2. Circular No. MFD/CIR/010/024/2000 dated 17-01-2000 inter-alia on Valuation committee)
3. Circular No. MFD/CIR/6/73/2000 dated 27-07-2000.
4. Circular No. MFD/CIR/8/92/2000 dated 18-09-2000.
5. Circular No. MFD/CIR/8(a)/104/2000 dated 03-10-2000.
6. Circular No. MFD/CIR/14/088/2001 dated 28-03-2001
7. Circular No. MFD/CIR/14/442/2002 dated 20-02-2002
8. Circular No. MFD/CIR/03/526/2002 dated 09-05- 2002
9. Circular No. MFD/CIR No .23/066/2003 dated 07-03-2003
10. Circular No. MFD/CIR No.9/141601/08 dated 18-10-2008
11. Circular No. MFD/CIR No.2/166256/2009 dated 12-06-2009
12. Circular No. IMD/CIR No.16/193388/2010 dated 02-02-2010
13. Circular No. IMD/DF/4/2010 dated 21-06-2010
14. SEBI MUTUAL FUNDS (AMENDMENT) (REGULATIONS),2012 dated 21-02-2012

15. Circular No. IMD/DF/6/2012 dated 28-02-2012
16. AMFI Best Practice Guidelines Circular No.135/BP/29/2012-13 dated 15th May 2012
17. AMFI Best Practice Guidelines Circular No.35P/MEM-COR/3/12-13 dated 30th May 2012
18. Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/41 dated March 22, 2019
19. Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019
20. Circular No. SEBI/HO/IMD/DF3/CIR/P/2020/47 dated March 23, 2020
21. Circular No. SEBI/HO/IMD/DF3/CIR/P/2020/76 dated April 30, 2020
22. AMFI Best Practice Guidelines Circular No. 135/BP/83/2019-20 dated November 18, 2019
23. Circular No. SEBI/HO/IMD/DF4/CIR/P/2021/032 dated March 10, 2021
24. Circular No. SEBI/HO/IMD/DF4/CIR/P/2021/034 dated March 22, 2021
25. Circular No. SEBI/HO/IMD/DF4/P/CIR/2021/593 Dated July 09, 2021
26. Master Circular for Mutual Funds issued by SEBI

Definitions: -

1.1 Traded Money Market and Debt Securities

A money market or debt security shall be considered as traded when, on the date of valuation, there are trades (in marketable lots) in that security on any recognized Stock Exchange or there are trades reported (in marketable lots) on the trade reporting platform of recognized stock exchanges or The Clearing Corporation of India Ltd. (CCIL). In this regard, the marketable lots shall be defined by AMFI, in consultation with SEBI.

Currently, marketable lot as defined by AMFI is as follow:

Parameter	Minimum Volume criteria for marketable lot
Primary	Rs. 25 crores for both Bonds/NCD/CP/CD and other money market instruments
Secondary	Rs. 25 crores for CP/CD, T-Bills and other money market instruments
Secondary	Rs. 5 crores for Bonds/NCD/G-Secs

1.2 Non-Traded Money Market and Debt Securities

A money market or debt security shall be considered as non-traded when, on the date of valuation, there are no trades (in marketable lots) in such security on any recognized Stock Exchange or no trades (in marketable lots) have been reported on any of the trade reporting platforms.

1.3 Below Investment Grade Securities

A money market or debt security shall be classified as “below investment grade” if the long-term rating of the security issued by a SEBI registered Credit Rating Agency (CRA) is below BBB- or if the short-term rating of the security is below A3.

1.4 Default Securities

A money market or debt security shall be classified as “Default” if the interest and / or principal amount has not been received, on the day such amount was due or when such security has been downgraded to “Default” grade by a Credit Rating Agency (CRA).

Any extension in the maturity of a money market or debt security shall result in the security being treated as “Default”, for the purpose of valuation.

If the maturity date of a money market or debt security is shortened and then subsequently extended, the security shall be treated as “Default” for the purpose of valuation.

1.5 Unlisted Securities

If on a valuation date a security is not listed / to be listed / awaiting listing on any of the stock exchanges, it would be considered as unlisted security.

2. Valuation of Money Market and Debt Securities

2.1 Valuation of Money Market and Debt Securities (other than government securities)

Money Market and Debt Securities are mainly classified into following 2 categories:

- i) Coupon bearing securities like Non-Convertible Debentures (NCD), Bonds, etc.
- ii) Discounted securities like Zero Coupon Bonds (ZCB), Commercial Papers (CP), Certificate of Deposits (CD), Bills Purchased under Rediscounting Scheme (BRDS), Discounted Securitised Debt / Pass Through Certificate (PTC) etc.

All money market and debt securities including floating rate securities, irrespective of residual maturity shall be valued at average of security level prices obtained from valuation agencies appointed by AMFI (currently, CRISIL and ICRA).

In case security level prices given by valuation agencies are not available for a new security (which is currently not held by any Mutual Fund), then such security may be valued at purchase yield on the date of allotment / purchase.

2.2 Valuation of securities with Put/Call Options

The option embedded securities would be valued as follows:

a) Securities with Call Option:

The securities with call option shall be valued at the lower of the value as obtained by valuing the security to final maturity and valuing the security to call option.

In case there are multiple call options, the lowest value obtained by valuing to the various call dates and valuing to the maturity date is to be taken as the value of the instrument.

b) Securities with Put Option:

The securities with put option shall be valued at the higher of the value as obtained by valuing the security to final maturity and valuing the security to put option.

In case there are multiple put options, the highest value obtained by valuing to the various put dates and valuing to the maturity date is to be taken as the value of the instrument.

c) Securities with both Put and Call Option:

Only securities with put / call options on the same day and having the same put and call option price, shall be deemed to mature on such put / call date and shall be valued accordingly. In all other cases, the cash flow of each put / call option shall be evaluated and the security shall be valued on the following basis:

- i) Identify a 'Put Trigger Date', a date on which 'price to put option' is the highest when compared with price to other put options and maturity price.
 - ii) Identify a 'Call Trigger Date', a date on which 'price to call option' is the lowest when compared with price to other call options and maturity price.
 - iii) In case no Put Trigger Date or Call Trigger Date ('Trigger Date') is available, then valuation would be done to maturity price. In case one Trigger Date is available, then valuation would be done as to the said Trigger Date. In case both Trigger Dates are available, then valuation would be done to the earliest date.
- d) If a put option is not exercised by CDMDF when exercising such put option would have been in favour of the CDMDF, in such cases the justification for not exercising the put option shall be provided to the Board of AMC and Trustees.
- e) Any put option inserted after the issuance of the security shall not be considered for the purpose of valuation and original terms of the issue will be considered for valuation.

2.3 Government Securities

Government Securities includes:

- i) Central Government Securities (G-Sec)
- ii) State Government Securities / State Development Loans (SDL)

- iii) Treasury Bills (T-Bills)
- iv) Cash Management Bills (CMB)

Irrespective of the residual maturity, Government Securities (including T-bills) shall be valued at average of security level prices obtained from valuation agencies appointed by CDMDF.

In case security level prices given by valuation agencies are not available for a new security (which is currently not held by any Mutual Fund), then such security may be valued at purchase yield on the date of allotment / purchase.

2.4 Valuation of market linked debentures

Irrespective of the residual maturity, valued at average of security level prices obtained from valuation agencies appointed by AMFI.

2.5 Treatment of Upfront Fees on Trades

- a) Upfront fees on all trades (including primary market trades), by whatever name and manner called, would be considered by the valuation agencies for the purpose of valuation of security.
- b) Details of such upfront fees should be shared by the AMC on the trade date to the valuation agencies as part of the trade reporting to enable them to arrive at the fair valuation for that date.
- c) For accounting, such upfront fees should be reduced from the cost of the investment in the scheme that made the investment.
- d) In case upfront fees / transaction fees are received by CDMDF, such upfront fees / transaction fees should be treated as income for CDMDF.

2.6 Use of Own Trade for Valuation

CDMDF's own trades shall not be used for valuation of debt and money market securities.

2.7 Waterfall approach for valuation of Money Market and Debt Securities

As per SEBI guidelines on valuation of money market and debt securities, a waterfall approach shall be followed by the valuation agencies for arriving at security level pricing.

AMFI, in consultation with SEBI, has issued detailed guidelines on waterfall approach for valuation of money market and debt securities. The broad principles of the said waterfall approach, for arriving at the security level prices are as follow:

- a) All traded securities shall be valued based on traded yields, subject to identification of outlier trades by the valuation agencies.
- b) Volume Weighted Average Yield (VWAY) for trades in the last one hour of trading shall be used as the basis for valuation of Government Securities (including T-bills). Valuation of all other money market and debt securities (including Government securities not traded in last one hour) shall be done based on VWAY of all trades during the day.
- c) In case of any exceptional events on a day, only VWAY of trades post such event may be considered for valuation. Further, all exceptional events along-with valuation carried out on such dates shall be documented with adequate justification. The following events would be considered as exceptional events:
 - i) Monetary / Credit Policy
 - ii) Union Budget

- iii) Government Borrowing / Auction Day
 - 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
 - viii) In addition to the above, valuation agencies may determine any other event as an exceptional event.
- d) All trades on stock exchanges and trades reported on trade reporting platforms till end of the trade reporting time (excluding Inter-scheme transfers), should be considered for valuation on that day.
- e) Considering the importance of polling in valuation process, detailed guidelines has also been issued by AMFI on polling by valuation agencies and on the responsibilities of Mutual Funds in polling process, as part of the aforesaid waterfall approach. The same shall be followed by CDMDF.

2.8 Deviation from valuation guidelines

- a) As per the Principles of Fair Valuation specified in Eighth Schedule of SEBI (Mutual Funds) Regulations, 1996, AMCs are responsible for true and fairness of valuation and correct NAV. Considering the same in case an AMC decides to deviate from the valuation price given by the valuation agencies, the detailed rationale for each instance of deviation shall be recorded by the AMC.
- b) The rationale for deviation along-with details such as information about the security (ISIN, issuer name, rating etc.), price at which the security was valued vis-a-vis the price as per the valuation agencies and the impact of such deviation on scheme NAV (in amount and percentage terms) shall be reported to the Board of AMC and Trustees.
- c) The rationale for deviation along-with details as mentioned under paragraph (b) above shall be disclosed immediately and prominently, under a separate head on the website of AMC.
- d) The above principle will be followed by CDMDF.

3. Valuation of money market and debt securities which are rated “Below Investment Grade” or “Default”.

- a) All money market and debt securities which are rated below investment grade shall be valued at the price provided by valuation agencies as appointed by AMFI.
- b) Till such time the valuation agencies compute the valuation of money market and debt securities classified as below investment grade, such securities shall be valued based on indicative haircuts provided by these agencies as listed in the Table below. These indicative haircuts shall be applied on the date of credit event i.e., migration of the security to sub-investment grade and shall continue till the valuation agencies compute the valuation price of such securities.

Trade Price for valuation

- c) In case of trades during the interim period between date of credit event and receipt of valuation price from valuation agencies, AMC shall consider such traded price for valuation if it is lower than the price post standard haircut. The said traded price shall be considered for valuation till the valuation price is determined by the valuation agencies.
- d) In case of trades after the valuation price is computed by the valuation agencies as referred above and where the traded price is lower than such computed price, such

traded price shall be considered for the purpose of valuation and the valuation price may be revised accordingly.

- e) The trades referred above shall be of a minimum size as determined by valuation agencies.

AMC's right to deviate from the indicative haircut and/or the valuation price provided by the valuation agencies.

- f) AMC may deviate from the indicative haircuts and/or the valuation price for money market and debt securities rated below investment grade provided by the valuation agencies subject to the following:
 - i) The detailed rationale for deviation from the price post haircuts or the price provided by the valuation agencies shall be recorded by the AMC.
 - ii) The rationale for deviation along-with details such as information about the security (ISIN, issuer name, rating etc.), price at which the security was valued vis-a-vis the price post haircuts or the average of the price provided by the valuation agencies (as applicable) and the impact of such deviation on scheme NAV (in amount and percentage terms) shall be reported to the Board of AMC and Trustees
 - iii) The rationale for deviation along-with details as mentioned at para above shall also be disclosed to investors. In this regard, AMC shall immediately disclose instances of deviations under a separate head on their website.

Treatment of accrued interest and future interest accrual

- g) The indicative haircut that has been applied to the principal should be applied to any accrued interest.
- h) In case of securities classified as below investment grade but not default, interest accrual may continue with the same haircut applied to the principal. In case of securities classified as default, no further interest accrual shall be made.
- i) In case the valuation agencies have adopted conservative rating (say "D" rating) than the rating given by the Credit Rating Agency (say "C" rating) for valuation of security, the rating adopted by the valuation agencies (i.e., "D" rating) shall be considered for the purpose of accrued interest and future interest accrual.

Treatment of any future recovery in terms of principal or interest

- j) Any recovery shall first be adjusted against the outstanding interest recognized in the NAV and any balance shall be adjusted against the value of principal recognized in the NAV.
- k) Any recovery more than the carried value (i.e., the value recognized in NAV) should then be applied first towards amount of interest written off and then towards amount of principal written off.

Disclosure in portfolio statement

- l) An asterisk mark / suitable mark should be given against money market and debt securities which are rated "Below Investment Grade" or "Default".
- m) If a security is in default beyond its maturity date, then disclosure to this effect shall be provided. Such disclosure shall include details of the security including ISIN, name of security, value of the security considered under net receivables (i.e., value recognized in

NAV in absolute terms and as % to NAV) and total amount (including principal and interest) that is due to the scheme on that investment. Further, this disclosure shall continue till the value of the security recognized in the NAV is received or for a period of 3 years from the date of maturity of security, whichever is later.

Haircut Table:

Standard haircut for sub-investment grade debt securities provided by valuation agencies and finalized by the AMFI Valuation Committee are as follow:

1. Haircuts for senior, secured securities

Rating/ Sector	Infrastructure, Real Estate, Hotels, Loan against shares and Hospitals	Other Manufacturing and Financial Institutions	Trading, Gems & Jewellery and Others
BB	15%	20%	25%
B	25%	40%	50%
C	35%	55%	70%
D	50%	75%	100%

2. Haircuts on subordinated and unsecured (or both) securities

Rating/ Sector	Infrastructure, Real Estate, Hotels, Loan against shares and Hospitals	Other Manufacturing and Financial Institutions	Trading, Gems & Jewellery and Others
BB	25%	25%	25%
B	50%	50%	50%
C	70%	70%	70%
D	100%	100%	100%

4. Valuation of TREPS

a) TREPS with residual maturity of over 30 days

Valued at average of security level prices obtained from valuation agencies appointed by AMFI.

In case security level prices given by valuation agencies are not available for a new TREPS (which is currently not held by any Mutual Fund), then such TREPS may be valued at purchase yield on the date of purchase.

b) TREPS with residual maturity of up to 30 days

Valued at cost plus accrual basis.

Whenever a security moves from 31 days residual maturity to 30 days residual maturity, the price as on 31st day would be used for amortization from 30th day.

5. Valuation of Reverse Repo (including Corporate Reverse Repo)

Reverse Repo will be valued at cost plus accruals basis. All securities taken under Reverse Repo will not be considered for valuation. Only the interest income earned would be considered for NAV calculation. (Interest per day equals to Second Leg minus First Leg divide by numbers of days).

a) Reverse Repo with residual maturity of over 30 days

Valued at average of security level prices obtained from valuation agencies appointed by AMFI.

In case security level prices given by valuation agencies are not available for a new Reverse Repo (which is currently not held by any Mutual Fund), then such Reverse Repo may be valued at purchase yield on the date of purchase.

b) Reverse Repo with residual maturity of up to 30 days

Valued at cost plus accrual basis.

Whenever a security moves from 31 days residual maturity to 30 days residual maturity, the price as on 31st day would be used for amortization from 30th day.

Note: All securities taken under Reverse Repo will not be considered for valuation. Only the interest income earned would be considered for NAV calculation.

6. Valuation of Fixed Deposits

Fixed Deposits will be valued at cost plus accrual basis.

7. Abnormal situations & market disruptions

In normal situations the valuation methods detailed above shall be used. However, in abnormal market conditions, due to lack of market trading or otherwise it may not be possible to obtain fair valuation using 'normal' means. In such situations, the 'realizable value' may be different from the benchmark-based prices obtained.

The following occurrences would normally be considered as abnormal situations:

- Major Policy announcements by Central Government, State Government, SEBI or RBI.
- Geo-political situations (Natural disasters, terror attacks, public disturbances, riots, wars) that may force the market to function abnormally.
- Absence in trading in specific securities or equivalent.
- Significant volatility in capital markets.
- Significant illiquidity in fixed income markets.
- Global events like Sovereign bankruptcy, corporate bankruptcy, closure of stock markets, disruptive political scenario that may impact the markets.
- Events which lead to lack of availability of accurate information to value a security.
- Technological breakdown in trading systems.

- Errors and omissions with respect to transaction processing.
- Large redemptions in the fund.
- Quarter-ending & tax-related liquidity tightness.

The events mentioned above are only indicative and may not reflect all possible exceptional events or circumstances. In case of any exceptional circumstances, the Valuation Committee may assess the situation and decide on the valuation methods and document the same as detailed above in clause “Deviation from Valuation Guideline”.

8. Treatment and disposal of illiquid securities or securities classified as default at the time of maturity / closure of the Fund.

In case, some of the investments made by the Funds may become default at the time of maturity of the Fund. Further, at the time of winding up of the Fund, some of the investments made by the Fund may become default or illiquid. In due course of time i.e., after the maturity or winding up of the Fund, such investments may be realised by the Fund. Such amount will be distributed to the concerned investors, subject to there is no outstanding against the leverage or claims paid by GSDC.

9. Valuation of securities not covered under the current Valuation Policy

In case of security/ies purchased by the fund does not fall within the current framework of the valuation of securities then the same shall be reported immediately to AMFI. Further, at the time of investment AMC shall ensure that the total exposure in such securities does not exceed 5% of the total AUM of the scheme.

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