

Bond valuation

Methodology document

Background:

CRISIL Funds and Fixed Income Research provide valuations for all outstanding bonds to all 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.

Valuation Methodology

Waterfall approach to determine security yields is as follows:

Step 1: Traded data

- Traded data are collected from exchanges and the total traded volume should be minimum of INR 5 crores

Step 2: Polls

- Two-way quotes by polling of market participants.
- In case of trades and primary issuances that are identified as an outlier.

Step 3: Primary issuances

- If traded information and two-way quotes are not available for any security, primary issuance yields by same/similar issuer of similar tenor are used for valuation. The primary issuance data is collected from sources such as Third Party Data Vendors etc.

Step 4: Levels for same issuer with similar maturity

- If a trade / poll reported for same issuer, then that yield would be considered for securities of same issuer and similar maturity.

Step 5: Levels for similar issuer with similar maturity

- If a trade / poll reported for similar issuer, then that yield would be considered for securities of similar issuer and similar maturity.

Step 6: Spread over matrices

- If traded information, two-way quotes, primary issuance data, same issuer with similar maturity and similar issuer with similar maturity are not available, relevant matrix movement is given to the security for the purpose of valuation.

Step 7: Quality Check

- Review of valuations is done by secondary analyst.

- All changes over previous day are reviewed and significant movement if any, is discussed with internal valuations committee for approval.

Policy for exceptions

- Valuation approach may see following deviations:
 - Priority to market polls over trades
 - Approach change to incorporate security specific/market dynamics
 - Any other necessary steps based on CRISIL's valuation committee's discussion
- Exceptional days include but are not limited to:
 - Monetary Policies
 - Annual Budget
 - Quarter end days
 - Policy announcements
 - Macro Economic data release days
 - Any day with high volatility

Governance mechanism

CRISIL has an internal committees 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.

About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.

It is India's foremost provider of ratings, data, research, analytics and solutions, with a strong track record of growth, culture of innovation and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

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