KOTAK MAHINDRA MUTUAL FUND

INVESTMENT VALUATION POLICY

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I. Introduction

SEBI vide Gazette Notification no. LAD-NRO/GN/2011-12/38/4290 dated February 21, 2012 has introduced the Principles of Fair Valuation by amending Regulation 47 and the Eighth schedule, which governs the valuation policy adopted by Kotak Mahindra Mutual Fund (KMMF), along with the various circulars issued by the SEBI from time to time.

The amended Regulations require that mutual funds shall value their investments in accordance with the principles of fair valuations so as to ensure fair treatment to all investors including the one's staying in the fund, the purchasing investor and the redeeming investor.

It further prescribes that the valuation shall be reflective of the realizable value of the securities and should take into consideration prices of the same security or similar security reported on all available public platforms.

The valuation shall be done in good faith and in a true and fair manner through appropriate valuation policies and procedures including dealing with exceptional events, duly approved by the Board of Asset Management Company.

The amendment also states that in case of any conflict between the principles of fair valuation and valuation guidelines as per Eighth schedule and circulars issued by SEBI, the principles of fair valuation shall prevail. AMC / Sponsor shall be liable to compensate investors / schemes for any unfair treatment to any investor as a result of inappropriate valuation.

The purpose of the Valuation Policy is primarily to:

- describe the methodologies for valuing each type of securities held by the schemes;
- ensure the appropriateness of the methodologies used;
- describe the process to deal with the exceptional events;
- address conflict of interest;
- ensure transparency by making appropriate disclosures.

II. Valuation Policies and Procedures

Mutual Fund shall value its investments in accordance with the overarching principles of fair valuation as enshrined above. The methodologies for each type of securities held by the schemes are provided in **Annexure 1**.

Investment in any new type of security shall be made only after establishment of the valuation methodology for such security with the approval of the Board of the AMC.

All inter-scheme transactions shall be valued at average of security level prices obtained from valuation agencies, currently CRISIL and ICRA.

Waterfall Mechanism for valuation of money market and debt securities to be used by valuation agencies and guidelines issued by AMFI on polling process for money market and debt securities is provided in **Annexure 2**.

III. Exceptional events

In case of exceptional events, the process and methodologies as determined by the Investment Committee shall be considered. Given the dynamic nature of the markets, defining standard processes and procedures for handling exceptional events may not be appropriate.

The illustrative list of exceptional events is as under:

- Policy announcements by the Reserve Bank of India (RBI), the Government or any Regulatory body for e.g. SEBI, AMFI etc.
- Significant volatility in the securities markets
- Market Illiquidity
- Any other event considered exceptional by the Investment Committee

IV. Conflict of Interest

If any situation arises that leads to conflict of interest, the same shall be raised to the Investment Committee and the Committee shall address the same such that the valuation provides for fair treatment to all investors. In the normal course of business, so long as the standard valuation policies are adopted, no conflict of interest issue arises.

V. Deviation

Investments shall be valued as per the methodologies mentioned in this Policy, which aim to enable true and fair valuation of securities. However, if the valuation of any particular security does not result in fair / appropriate valuation or under exceptional circumstances, the Investment Committee would have the right to deviate from the established policies in order to value the security at fair / appropriate value. Deviations from the valuation policy, if any, will be informed to the AMC and Trustee Board and will be communicated to the investors vide appropriate disclosures on the Mutual Fund's website.

VI. Periodic Review

The Valuation Policy shall be reviewed periodically to ensure appropriateness by the AMC / Trustee boards. It shall also be reviewed periodically by the internal auditors and annually by the independent auditors to ensure appropriateness.

VII. Disclosure and Record keeping

In order to ensure transparency of valuation norms by Kotak Mahindra Asset Management Company (KMAMC), the valuation policy and procedures shall be disclosed in the Statement of Additional Information (SAI) and on the website.

Annexure 1 – Security wise valuation policy and procedures for Investments made by KMMF

A. **Equity and Equity Related Instruments** - Investments are stated at market / fair value at the Balance Sheet date / date of determination.

S. No.	Security Type	Valuation Policy
1.	Traded equity and equity related securities including Preference shares and Convertible Debentures	These securities are valued at the last quoted closing price on the National Stock Exchange of India Limited (NSE) except for Kotak Sensex ETF, wherein the equity securities are valued at the last quoted closing price of Bombay Stock Exchange Ltd. (BSE). However, if these securities are not listed / traded on NSE / BSE, as the case may be, the securities are valued at the last quoted closing price on the exchange where it is principally traded. When these securities are not traded on any stock exchange on a particular valuation day, the value at which it was traded on NSE or any other stock exchange as the case may be, on the earliest previous day is used, provided that such day is not more than thirty days prior to the valuation date.
2.	Non-traded / Privately placed / Unlisted equity and preference shares	Non-traded / privately placed / unlisted equity and preference shares including those not traded within thirty days are valued at fair value as per procedures determined by the Investment Committee.
3.	Non traded Rights Entitlement	Until they are traded, the value of "rights" shares shall be calculated as the difference between the ex-rights price and the rights offer price. Where the rights are not treated pari passu with the existing shares, suitable adjustments shall be made to the value of the rights. Where it is decided not to subscribe for the rights but to renounce them and renunciations are being traded, the rights can be valued at the renunciation value.
4.	Equity and Equity related securities awaiting listing (Merger, Demerger, etc.)	In respect of special circumstances, such as Merger, De-Merger, Split, Hiving off, etc., fair value principles are adopted. Such fair valuation principles could be the

		difference between the price as existed on the date previous to the ex-date and the ex-date price of the existing equity shares, duly adjusted for discount, if any.
5.	Initial Public Offering ('IPO') application	Prior to allotment – at Bid Price Post allotment but awaiting listing – at allotment price
6.	Non-traded Convertible debentures	In respect of convertible debentures and bonds, the non- convertible and convertible components shall be valued separately. The non-convertible component should be valued on the same basis as would be applicable to a debt instrument. The convertible component should be valued on the same basis as would be applicable to an equity instrument. If after conversion the resultant equity instrument would be traded pari passu with an existing instrument which is traded, the value of the latter instrument can be adopted after an appropriate discount for the non-tradability of the instrument during the period preceding the conversion while valuing such instruments, the fact whether the conversion is optional should also be factored in.
7.	Non-traded warrants	In respect of warrants to subscribe for shares attached to instruments, the warrants can be valued at the value of the share which would be obtained on exercise of the warrant as reduced by the amount which would be payable on exercise of the warrant. Appropriate discount shall be deducted to account for the period, which must elapse before the warrant can be exercised.

B. Debt and Money Market (including Sovereign securities) Instruments

S. No.	Security Type	Valuation Policy
1.	Money Market and Debt Securities with residual maturity greater than 30 days	All money market and debt securities including floating rate securities and bills purchased under rediscounting scheme, with residual maturity of over 30 days shall be valued at average of security level prices obtained from valuation agencies, 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.	Money Market and Debt Securities with residual maturity upto 30 days	All money market and debt securities including floating rate securities and bills purchase under rediscounting scheme, with residual maturity of upto 30 days are valued on amortization basis from the last valuation price or cost, as the case may be. Reference price shall be the average of the security level price as provided by AMFI appointed valuation agencies, currently CRISIL and ICRA. The amortised price may be used for valuation as long as it is within ± 0.025% of the reference price In case the deviation exceeds ± 0.025%, the amortised price shall be adjusted to bring it within the ± 0.025% band. 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 on amortization basis on the date of allotment / purchase.
3.	Government Securities	Irrespective of the residual maturity, Government Securities (including T-bills) shall be valued on the basis of security level prices obtained from valuation agencies.
4.	Securities which are rated below investment grade or default	Securities which are rated below investment grade or default shall be valued at the price provided by AMFI appointed valuation agencies, currently CRISIL and ICRA. Where the traded price is lower than such computed price, such traded price shall be considered for the purpose of valuation. Any deviation from the valuation price may be as decided by the Investment Committee.
5.	Bank Deposit and Repo (including Tri Party Repo (TREPS)) with tenor of upto 30 days	Bank deposits and Repo (including tri-party repo (TREPS)) with tenor upto 30 days are valued at cost plus accrual basis.

If the debt and money market securities have put and call option attached to it, the valuation shall be made as under:

S. No.	Security Type	Valuation Policy
6.	Securities with Put / Call option	Securities with put / call option be valued based on average of prices provided by CRISIL/ ICRA. Where the put or call option is exercised and/or the residual maturity is up to 30 days, the same shall be amortized till the put or call date respectively subject to para B(2) above. In respect of securities which are rated below investment grade or default, such securities with put / call option shall be valued as per para B(4) above.

C. Other Instruments

S. No.	Security Type	Valuation Policy
1.	Real Estate Investment Trust ('ReITs') & Infrastructure Investment Trust ('InvITs')	<u>Allotted but awaiting listing -</u> At allotment price <u>Listed / Traded / Non Traded</u> ReIT and InvIT are valued at the last quoted closing price at the principal stock exchange. In case ReIT / InvIT are not traded on the principal stock exchange on a particular date, the closing price at which it is traded on any other stock exchange will be considered. If the traded price is not available, then valuation shall be as per the direction of Investment Committee. Investments in ReIT / InvIT shall be valued as follows: • In case ReIT / InvIT is not being traded on any given day, last traded price would be taken as fair market value provided such last trade is not beyond previous 30 days. • In case ReIT / InvIT is not being traded for previous 30 days, latest NAV declared by investment manager of ReIT / InvIT trust shall deemed to be the fair price. • In case investment committee can establish a case that NAV as published by investment manager of ReIT / InvIT is not representative of fair value than at a price suggested to be fair value.

2.	Futures and Options	All open future positions are valued at the futures settlement price as determined by the exchange where it is traded. All option positions are valued at the last traded price where it is traded. In case there is no traded price available then the option position is valued at fair value based on a theoretical price as derived by Black & Scholes option pricing formula.
3.	Mutual Fund units	In case of listed investments in mutual fund units, valuation shall be at the last quoted closing price at the principal stock exchange. If the traded price is not available, then last declared net asset value of the schemes available on AMFI site will be considered for valuation. Investments in unlisted mutual fund schemes are valued based on the last declared net asset value of the schemes available on AMFI website.
4.	Gold	Investments in gold are valued at the price arrived at by converting the price of gold quoted on the London Bullion Market Association [LBMA] in US Dollars into Indian Rupees at the exchange rate published by the Reserve Bank of India as increased by custom duty for import of gold and other charges as applicable. If on any day, LBMA price is not available due to holiday, the last published LBMA price will be considered for valuation by applying last available RBI reference rate.
5.	Foreign Securities	Investments in securities outside India are valued at the closing price on the stock exchange on which they are listed or at the last available traded price. Investment in units of overseas mutual funds is valued based on the last declared net asset value of the overseas mutual fund. On valuation date, all foreign securities shall be valued in Indian Rupees at the last available RBI reference rate.
6.	OTC Derivatives and Market Linked Debentures	OTC Derivatives and Market Linked Debentures are valued based on prices

		received from valuation agencies.
7.	Securities Lending Scheme	The lending fees received on securities lent under Securities lending scheme would be amortised till the maturity of the contract.

Annexure 2 – Waterfall Mechanism and guidelines issued by AMFI on polling process

Waterfall Mechanism for valuation of money market, debt and government securities

SEBI vide circular no. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019 on "Valuation of money market and debt securities" provides that for arriving at security level pricing, a waterfall approach shall be followed for valuation of money market and debt securities.

The circular also lays down broad principles for considering the traded yields for valuation of debt, money market and government securities, subject to identification of outlier trades by the valuation agencies.

The said circular also prescribes that AMFI in consultation with SEBI shall ensure that valuation agencies have a documented waterfall approach for valuation of money market and debt securities. Accordingly, AMFI in consultation with SEBI has issued Best Practices Guidelines circular no. 135/BP/83/2019-20 dated November 18, 2019 pertaining to the waterfall mechanism, the extract of which is as under:

Part A: Valuation of Money Market and Debt Securities other than Government Securities ("G-Secs")

1. Waterfall Mechanism for valuation of money market and debt securities

The following shall be the broad sequence of the waterfall for valuation of money market and debt securities:

i. Volume Weighted Average Yield (VWAY) of primary reissuances of the same ISIN (whether through book building or fixed price) and secondary trades in the same ISIN;

ii. VWAY of primary issuances through book building of same issuer, similar maturity (Refer Note 1 below);

iii. VWAY of secondary trades of same issuer, similar maturity;

iv. VWAY of primary issuances through fixed price auction of same issuer, similar maturity;

v. VWAY of primary issuances through book building of similar issuer, similar maturity (Refer Note 1 below);

vi. VWAY of secondary trades of similar issuer, similar maturity;

vii. VWAY of primary issuance through fixed price auction of similar issuer, similar maturity;

viii. Construction of matrix (polling may also be used for matrix construction);

ix. In case of exceptional circumstances, polling for security level valuation (Refer Note 2 below)

Note 1

Except for primary issuance through book building, polling shall be conducted to identify outlier trades. However, in case of any issuance through book building which is less than INR 100 Cr, polling shall be conducted to identify outlier trades.

Note 2

Some examples of exceptional circumstance 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. Here stale spreads are defined as spreads of issuer which were not reviewed/updated through trades/primary/polls in same or similar security/issuers of same/similar maturities in waterfall approach in last 6 months.

Further, the exact details and reasons for the exceptional circumstances which led to polling shall be documented and reported to AMCs. Further, a record of all such instances shall be maintained by AMCs and shall be subject to verification during SEBI inspections.

Note 3

All trades on stock exchanges and trades reported on trade reporting platforms till end of trade reporting time (excluding Inter-scheme transfers) should be considered for valuation on that day.

Note 4

It is understood that there are certain exceptional events, occurrence of which during market hours may lead to significant change in the yield of the debt securities. Hence, such exceptional events need to be factored in while calculating the price of the securities. Thus, for the purpose of calculation of VWAY of trades and identification of outliers, on the day of such exceptional events, rather than considering whole day trades, only those trades shall be considered which have occurred post the event (on the same day).

The following events would 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

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.

2. Definition of tenure buckets for Similar Maturity

When a trade in the same ISIN has not taken place, reference should be taken to trades of either the same issuer or a similar issuer, where the residual tenure matches the tenure of the bond 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 Bond 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
Greater than 1 year to 3 years	Calendar Quarterly Bucket
Greater than 3 years	Calendar Half Yearly or Greater Bucket

In addition to the above:

a. In case of market events, or to account for specific market nuances, valuation agencies may be permitted to vary the bucket in which the trade is matched or to split buckets to finer time periods as necessary. Such changes shall be auditable. Some examples of market events / nuances include cases where traded yields for securities with residual tenure of less than 90 days and more than 90 days are markedly different even though both may fall within the same maturity bucket, similarly for less than 30 days and more than 30 days or cases where yields for the last week v/s second last week of certain months such as calendar quarter ends can differ.

b. In the case of illiquid/ semi liquid bonds, it is proposed that traded spreads be permitted to be used for longer maturity buckets (1 year and above). However, the yield should be adjusted to account for steepness of the yield curve across maturities.

c. The changes / deviations mentioned in clauses (a) and (b) above, should be documented, along with the detailed rationale for the same. Process for making any such deviations shall also be recorded. Such records shall be preserved for verification.

3. Process for determination of similar issuer

Valuation agencies shall determine similar issuers using one or a combination of the following criteria. Similar issuer do not always refer to issuers which trade at same yields, but may 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.

i. Issuers within same sector/industry and/or
ii. Issuers within same rating band and/or
iii. Issuers with same parent/ within same group and/or
iv. Issuers with debt securities having same guarantors and/or
v. Issuers with securities having similar terms like Loan Against Shares (LAS)/ Loan Against Property (LAP)

The above criteria are stated as principles and the final determination on criteria, and whether in combination or isolation shall be determined by the valuation agencies. The criteria used for such determination should be documented along with the detailed rationale for the same in each instance. Such records shall be preserved for verification. 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 just to trigger the review of spreads for other securities in the similar issuer category basis the trade/news/action in any security/ies within the similar issuer group.

4. Recognition of trades and outlier criteria

i. Volume criteria for recognition of trades (marketable lot)

Paragraph 1.1.1.1(a) of SEBI vide circular no. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019 on Valuation of money market and debt securities, prescribes that the marketable lots shall be defined by AMFI, in consultation with SEBI. In this regard, marketable lot is defined as under. The following volume criteria shall be used for recognition of trades by valuation agencies:

Parameter	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
Secondary	INR 5 Cr for Bonds/NCD/ G-secs

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

ii. Outlier criteria

It is critical to identify and disregard trades which are aberrations, do not reflect market levels and may potentially lead to mispricing of a security or group of securities. Hence, the following broad principles would be followed by valuation agencies for determining outlier criteria.

a. Outlier trades shall be classified on the basis of liquidity buckets (Liquid, Semi-liquid, Illiquid). Price discovery for liquid issuers is generally easier than that of illiquid issuers and hence a tighter pricing band as compared to illiquid issuers would be appropriate.

b. The outlier trades shall be determined basis the yield movement of the trade, over and above the yield movement of the matrix. Relative movement ensures that general market movements are accounted for in determining trades that are outliers. Hence, relative movement over and above benchmark movement shall be used to identify outlier trades.

c. Potential outlier trades which are identified through objective criteria defined below will be validated through polling from market participants. Potential outlier trades that are not validated through polling shall be ignored for the purpose of valuation.

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

Liquidity Classification	**Bps Criteria (Yield movement over Previous Day yield after accounting for yield movement of matrix)**		
	Upto 15 days	**15-30 days**	**Greater than 30 days**
Liquid	30 bps	20 bps	10 bps
Semi-liquid	45 bps	35 bps	20 bps
Illiquid	70 bps	50 bps	35 bps

The above criteria shall be followed consistently and would be subject to review on a periodic basis by valuation agencies and any change would be carried in consultation with AMFI.

e. In order to ensure uniform process in determination of outlier trades the criteria for liquidity classification shall be as detailed below.

Liquidity classification criteria - Liquid, semi-liquid and Illiquid definition

Valuation agencies shall use standard criteria for classifying trades as Liquid, Semi-Liquid and illiquid basis the following two criteria:

a. Trading Volume
b. Spread over reference yield

Such criteria shall be reviewed on periodic basis in consultation with AMFI.

Trading Volume (Traded days) based criteria:

Number of unique days an issuer trades in the secondary market or issues a new security in the primary market in a calendar quarter

- Liquid = 50% of trade days
- Semi liquid = 10% to 50% trade days
- Illiquid = <10 % of trade days

Spread based criteria:

Spread over the matrix shall be computed and based on thresholds defined, issuers shall be classified as liquid, semi liquid and illiquid. For bonds thresholds are defined as upto 15 bps for liquid; >15-75 bps for semi-liquid; > 75 bps for illiquid. (Here, spread is computed as average spread of issuer over AAA Public Sector Undertakings/Financial Institutions/Banks matrix), For CP/ CD - upto 25 bps for liquid; > 25-50 bps for semiliquid; > 50 bps for illiquid. (Here, spread is computed as average spread of issuer over A1+/AAA CD Bank matrix).

The thresholds shall be periodically reviewed and updated having regard to the market.

The best classification (liquid being the best) from the above two criteria (trading volume and spread based) shall be considered as the final liquidity classification of the issuer. The above classification shall be carried out separately for money market instruments (CP/ CDs) and bonds.

5. Process for construction of spread matrix

Valuation agencies shall follow the below process in terms of calculating spreads and constructing the matrix:

Step 1	**Segmentation of corporates** – The entire corporate sector is first categorised across following four sectors i.e. all the corporates will be catalogued under one of the below mentioned bucket: 1. Public Sector Undertakings/Financial Institutions/Banks; 2. Non-Banking Finance Companies - except Housing Finance Companies; 3. Housing Finance Companies; 4. Other corporates
Step 2	**Representative issuers –** For the aforesaid 4 sectors, representative issuers (Benchmark Issuers) shall be chosen by the valuation agencies for only higher rating {I.e. "AAA" or AA+). Benchmark/Representative Issuers will be identified basis high liquidity, availability across tenure in AAA/AA+ category and having lower credit/liquidity premium. Benchmark Issuers can be single or multiple for each sector. It may not be possible to find representative issuers in the lower rated segments, however in case of any change in spread in a particular rating segment, the spreads in lower rated segments should be suitably adjusted to reflect the market conditions. In this respect, in case spreads over benchmark are widening at a better rated segment, then adjustments should be made across lower rated segments, such that compression of spreads is not seen at any step. For instance, if there is widening of spread of AA segment over the AAA benchmark, then

	there should not be any compression in spreads between AA and A rated segment and so on.
Step 3	**Calculation of benchmark curve and calculation of spread –** 1. Yield curve to be calculated for representative issuers for each sector for maturities ranging from 1 month till 20 years and above. 2. Waterfall approach as defined in Part A (1) above will be used for construction of yield curve of each sector. 3. In the event of no data related to trades/primary issuances in the securities of the representative issuer is available, polling shall be conducted from market participants. 4. Yield curve for Representative Issuers will be created on daily basis for all 4 sectors. All other issuers will be pegged to the respective benchmark issuers depending on the sector, parentage and characteristics. Spread over the benchmark curve for each security is computed using latest available trades/primaries/polls for respective maturity bucket over the Benchmark Issuer. 5. Spreads will be carried forward in case no data points in terms of trades/primaries/polls are available for any issuer and respective benchmark movement will be given.
Step 4	1. The principles of VWAY, outlier trades and exceptional events shall be applicable while constructing the benchmark curve on the basis of trades/primary issuances. 2. In case of rating downgrade/credit event/change in liquidity or any other material event in Representative Issuers, new Representative Issuers will be identified. Also, in case there are two credit ratings, the lower rating to be considered. 3. Residual tenure of the securities of representative issuers shall be used for construction of yield curve.

Part B: Valuation of G-Secs (T-Bill, Cash management bills, G-Sec and SDL)

The following is the waterfall mechanism for valuation of Government securities:

- VWAY of last one hour, subject to outlier validation;
- VWAY for the day (including a two quote, not wider than 5 bps on NDSOM), subject to outlier validation;
- Two quote, not wider than 5 bps on NDSOM, subject to outlier validation;
- Carry forward of spreads over the benchmark;
- Polling etc.

Note:

1. VWAY shall be computed from trades which meet the marketable lot criteria stated in Part A of these Guidelines.

2. Outlier criteria: Any trade deviating by more than +/- 5 bps post factoring the movement of benchmark security shall be identified as outlier. Such outlier shall be validated through polling for inclusion in valuations. If the trades are not validated, such trades shall be ignored.

Guidelines on Polling Process for money market, debt and government securities

The Guidelines on polling issued by AMFI in consultation with SEBI are as under:

1. Valuation agencies shall identify the Mutual Funds who shall participate in the polling process on a particular day, taking into account factors such as diversification of poll submitters and portfolio holding of the Mutual Funds. Mutual Funds who are identified by the valuation agencies shall necessarily participate in the polling process. However, in case any Mutual Fund does not participate in the polling process, detailed reason for the same shall be recorded at the time and subsequently made available during SEBI inspections. In this respect, since a Mutual Fund may have investments in similar securities, a security not forming part of investment universe may not be considered as an adequate reason for not participating in the polling process.

2. Polling will be carried out on a daily basis by the valuation agencies.

3. Each valuation agency needs to take polls from at least 5 unique Mutual Funds on a daily basis. Hence, between the two valuation agencies 10 unique Mutual Funds to be polled. They may cover more Mutual Funds, over and above this. For benchmark securities a poll constituting at least 5 responses will be considered as valid. In case of non-benchmark securities a poll constituting at least 3 responses will be considered as valid. The responses received by each valuation agency will be shared with the other agency also.

4. Median of polls shall be taken for usage in valuation process.

5. The valuation agencies will also need to cover as many non- Mutual Fund participants as possible, over and above the Mutual Funds, to improve on the polling output quality.

6. Endeavour would be made to have adequate representation of both holders and non-holders of the same bond/same issuer for non-benchmark securities in the poll process. Where this is not possible, valuation agencies may seek polls from holders of bonds with a similar structure.

7. In the case of issuers with multiple notch rating upgrades / downgrades over short periods of time, valuation agencies shall:
   a. Conduct polls with a larger universe of pollers
   b. Increase the frequency of polling

8. Suo moto feedback on valuations should be entertained only through formal mails from persons designated by AMC for said purpose, and the same shall be validated through repolling. Any such feedback shall be duly recorded by the valuation agencies, including the reason for the challenge, results of repolling and subsequent changes in valuation on re-polling, if any. Such records shall be preserved by the valuation agencies, for verification.

9. Polling will be done for two sets of securities, Benchmark & Others.

10. Benchmark will be defined for the following categories across tenors:
    a. Treasury Bills
    b. Central Government Securities
    c. State Government Securities
    d. AAA PSU / PFI / PSU Banks
    e. AAA Private
    f. NBFC
    g. HFC
    h. Any other as required for improving fair valuations

11. Polling shall be conducted in the following two scenarios:
    a. Validation of traded levels if they are outlier trades
    b. Non-traded Securities (in exceptional circumstances as defined in the waterfall mechanism for valuation of money market and debt securities).

12. Best efforts should be made by poll submitters to provide fair valuation of a security.

13. The polling process will be revalidated by external audit of the valuation agencies with at least an annual frequency.

14. AMCs shall have a written policy, approved by the Board of AMC and Trustees, on governance of the polling process. The aforesaid policy shall include measures for mitigation of potential conflicts of interest in the polling process and shall identify senior officials, with requisite knowledge and expertise, who shall be responsible for polling. Further, the policy should outline the following aspects.
    a. the process of participating in a polling exercise
    b. identify the roles and responsibilities of persons participating in the polling
    c. include policies and procedures for arriving at the poll submission
    d. cover the role of the Board of AMC and Trustees, and the periodic reporting that needs to be submitted to them.
    e. All polling should be preferably over email. In case for any reason, the polling is done by way of a telephonic call then such a call should be over recorded lines, followed subsequently by an email.
    f. AMCs should have adequate business continuity arrangements for polling, with the necessary infrastructure / skill to ensure that consistent delivery of poll submissions is made without material interruption due to any failure, human or technical.

15. All polling done will have to be documented and preserved in format approved by the Board of AMC, for a period of eight years, along-with details of the basis of polling (such as market transactions, market quotes, expert judgement etc.).

16. AMCs shall ensure that participation in the polling process is not mis-used to inappropriately influence the valuation of securities. The officials of the AMC who are responsible for polling, shall also be personally liable for any misuse of the polling process.

17. AMCs shall maintain an audit trail for all polls submitted to valuation agencies.