

Corporate Bond Matrix

Process Document

Background:

CRISIL Funds and Fixed Income Research provides valuation matrices to subscribers on a daily basis. This methodology document covers the matrix construction process, policy for exceptions and governance structure.

Valuation Methodology

Generation of yield curve

Yield curve is prepared based on secondary trades/primary issuances of AAA benchmark securities and in the absence of trades, polls are considered to prepare the curve. On a daily basis, movement of AAA rated benchmark securities is given to lower rating categories for the respective modified duration buckets. Once the yield curve is prepared, then spreads of respective modified duration bucket is arrived over Government securities. On periodic basis, spread review of lower rated categories is carried out.

Waterfall approach to determine yield curve is as follows:

Step 1: Same ISIN (Primary Reissuance/Secondary Trades)

- Volume Weighted Average Yield (VWAY) of the Primary reissuances of the same ISIN and secondary trades in the same ISIN.

Step 2: Primary Issuance

- Volume Weighted Average Yield (VWAY) of the Primary issuances of same issuer, similar maturity to be considered. Minimum primary issuance of INR 25 crores or more are considered for corporate bonds and CPCD for matrix.

Step 3: Secondary Trades

VWAY of trades of same issuer, similar maturity for Corporate Bonds/CPCD/SLR reported on exchanges are considered. IST trades are not considered for valuation. Minimum volume considered for Bonds and G-sec are INR 5 crores and for T-bill and CPCD are INR 25 crores.

Step 4: Polls/ Two way Quotes

- For SLR securities Two-way quotes not wider than 5 bps are considered.
- In absence of trades/primary issuances in any security class for respective tenor buckets, polling from market participants is carried out.
- Polling is also carried out in case of secondary trades and primary issuances are identified as an outlier.

Quality Check

- Review is done by the secondary analyst and if any significant movement in the matrices over previous day's matrices is noticed, then the same is discussed with internal valuation committee for its approval.

Policy for exceptions

- Valuation approach may see following deviations:
 - Approach change to incorporate security specific/market dynamics
 - And any other necessary steps based on CRISIL's valuation committee's discussion
- Exceptional days include but are not limited to:
 - Monetary Credit Policy
 - Union Budget
 - Government borrowing / Auction days
 - Material Statements on Sovereign rating
 - Issuer or Sector specific events which have a material impact on yields
 - Central Government election days
 - 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 committees comprising of President, Senior Director/s, Director/s and Associate Director/s which has following role as provided below.

- **Periodic Review:** The spreads of rating categories AA+ and lower will be polled thoroughly from the market participants bi-annually, at the end of June and December.
- **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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