

SEBI/HO/IMD/PoD1/CIR/P/2024/106

August 05, 2024

To,
All Mutual Funds (MFs)
Asset Management Companies (AMCs)
Trustee Companies/ Boards of Trustees of Mutual Funds
Registrar to an Issue and Share Transfer Agents ('RTAs')
Association of Mutual Funds in India (AMFI)

Sir/Madam,

Subject: Valuation of Additional Tier 1 Bonds ("AT-1 Bonds").

1. This has reference to clause 9.3.1.1 and clause 9.4.2 of the Master Circular No. SEBI/HO/IMD/IMD-PoD-1/P/CIR/2024/90 dated June 27, 2024 for Mutual Funds ("Master Circular"), on valuation of bonds with multiple call options.
2. National Financial Reporting Authority (NFRA), in its report to Department of Economic Affairs, Ministry of Finance, has recommended that since the market practice for AT-1 bonds has been observed to trade at or quote prices closer to Yield to Call (YTC) basis, valuation of AT-1 Bonds on Yield to Call basis (adjusted with appropriate risk spreads) will be consistent with the principles of market-based measurement under Ind AS 113.
3. NFRA, in its report, has further stated that the above recommendation on YTC methodology is confined only to the interpretation of Ind AS 113 with reference to the valuation of AT-1 bonds and the issue of deemed maturity date for other purposes is outside NFRA's remit.
4. In view of the above, in order to align the valuation methodology with the recommendation of NFRA, it has been decided that the valuation of AT-1 Bonds by Mutual Funds shall be based on Yield to Call.

5. For all other purposes, since liquidity risk of perpetual bonds is required to be suitably captured, deemed maturity of all perpetual bonds shall continue to be in line with the clause 9.4.2 of the Master Circular.
6. This circular is issued in exercise of powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992, read with the provisions of Regulation 25(19), 47 read with Regulation 77 of SEBI (Mutual Funds) Regulations, 1996, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.
7. The circular is available at www.sebi.gov.in under the link "Legal -> Circulars".

Yours faithfully,

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