

## Eleventh Amendment to Investment Valuation Policy & Procedure (“Valuation Policy”) of Invesco Mutual Fund

### Provisions w.r.t. Deemed residual maturity of perpetual bonds and valuation of bonds issued under the Basel III framework are as follows:

Sr. #	Reference No. Annexure I of the Valuation Policy	Revised / Additional Provisions
Para B.i - Valuation of Money Market and Debt Securities rated above investment grade		
1.	Para B.i.3 - Valuation of securities with put/call options	It is clarified that the maturity of perpetual bonds (other than bonds issued under Basel III framework) shall be treated as 100 years from the date of issuance of the bond for the purpose of valuation
2.	Para B.i.7 - AT-1 and Tier II issued under Basel III framework	AT-1 / Tier II bonds will be valued at average of the security level prices provided by Valuation Agencies. For arriving at security level pricing, waterfall approach to be followed by Valuation agencies is as per Annexure III (appended below for reference)

### ANNEXURE III - VALUATION OF AT-1 AND TIER II BONDS ISSUED UNDER BASEL III FRAMEWORK

#### **I. Deemed Residual Maturity of Bonds**

The Deemed Residual Maturity for the purpose of valuation as well as Macaulay Duration for existing as well as new perpetual bonds issued:

Time Period	Deemed Residual Maturity (Years)
Till March 31, 2022	10
April 01, 2022 - September 31, 2022	20
October 01, 2022 - March 31, 2023	30
March 31, 2023 onwards	100

# the residual maturity will always remain above the deemed residual maturity proposed above.

The Macaulay Duration is proposed to be calculated as under for Tier II bonds:

Time Period	Deemed Residual Maturity for all securities (Years)
April 01, 2021 - March 31, 2022	10 years or contractual maturity whichever is earlier
April 01, 2022 onwards	Actual Maturity

- If the issuer does not exercise call option for any ISIN, then maturity of bonds to be considered as 100 years from the date of issuance of AT-1 bonds and contractual maturity of Tier II Bonds for all the ISINs of the said issuer.
- If the non-exercise of call option is due to financial stress or in case of adverse news, the same must be reflected in the valuation.

#### **II. Guidelines for Valuation**

##### **1. Form two types of ISINs:**

- Benchmark ISINs (a non-benchmark ISIN can be linked to only one benchmark ISIN. Currently, SBI ISINs happens to be the benchmark ISINs across all maturities for AT-1 Bonds.)
- Non-benchmark ISINs (Will be divided into multiple groups based on similar issuer and similar maturity).
- The groups will be decided in consultation with valuation agencies. The two main criteria envisaged to be used here would be Tier 1 / Tier 2 ratings of the ISINs / Issuers, and the spread range in which the group of ISINs / Issuer’s trade over the benchmark.

**2. Take a look back period for trade recognition as under:**

- a) 15 working days for benchmark ISINs
- b) 30 working days for non-benchmark ISINs
- c) This will be revised to 7 working days for benchmark ISIN and 15 working days for non- benchmark ISINs from October 01, 2021.

**Note 1**

- a) If the ISIN gets traded, the traded YTM will be taken for the purpose of valuation.
- b) If 1 ISIN of the issuer trades all other ISINs of issuers will be considered as traded but with necessary adjustment of spread to YTM.
- c) If none of the ISIN of the issuer gets traded, the trade of similar issuer in the group will be taken to valuation however with necessary adjustment of spread to YTM of similar issuer similar maturity. If none of the ISIN in a group gets traded on any particular day, an actual trade in a look back period will be seen.
- d) If there is an actual trade in look back period the security will be considered as traded and valued with necessary adjustment of spread to YTM. According to this valuation will be done based on the trade of issuer, trade of similar issuer and as an additional layer a look back period of is requested. It is confirmed that spread over YTM will be taken without any adjustment of modified duration to call.

**Note 2**

As the valuation is based on trade during the look back period, it is confirmed that a spread will be adjusted to reflect adverse news, change in credit rating, interest rate etc., which has bearing on the yield of ISIN being valued.

**Note 3**

If there is no actual trade of any ISIN of the issuer as well as similar issuer during look back period also then valuation will be done by taking spread over matrix and/or polling in line with the waterfall mechanism prescribed by AMFI.

**Note 4**

AT-1 bonds and Tier 2 bonds being different categories of bonds, the valuation of these bonds will be done separately (i.e.) ISIN of AT-1 bond traded will not mean that ISIN of Tier-2 bonds of the same issuer have also traded. However, if any issuer does not exercise call option for any ISIN, then the valuation and calculation of Macaulay Duration should be done considering maturity of 100 years from the date of issuance for AT-1 Bonds and Contractual Maturity for Tier 2 bonds, for all ISINs of the issuer.