

CIRCULAR

SEBI/HO/IMD/DF4/CIR/P/2021/034

March 22, 2021

**All Mutual Funds (MFs)/Asset Management Companies (AMCs)/
Trustee Companies/ Boards of Trustees of Mutual Funds/
Association of Mutual Funds in India (AMFI)**

Sir / Madam,

Subject: Clarification on the valuation of bonds issued under Basel III framework.

1. SEBI, vide para 8 of the circular No. SEBI/HO/IMD/DF4/CIR/P/2021/032 dated March 10, 2021, has inter alia stated that the maturity of all perpetual bonds shall be treated as 100 years from the date of issuance of the bond for the purpose of valuation.
2. Based on the representation of the Mutual Fund Industry to consider a glide path for implementation of the policy and request of other stakeholders, it has been decided that the deemed residual maturity for the purpose of valuation of existing as well as new bonds issued under Basel III framework shall be as below:

Time Period	Deemed Residual Maturity of Basel III AT-1 bonds (Years)	Deemed Residual Maturity of Basel III Tier 2 Bonds (Years)
Till March 31, 2022	10	10 years or Contractual Maturity whichever is earlier
April 01, 2022 – September 30, 2022	20	Contractual Maturity
October 01, 2022 – March 31, 2023	30	Contractual Maturity
April 01, 2023 onwards	100 *	Contractual Maturity

*100 years from the date of issuance of the bond.

Macaulay Duration for bonds issued under Basel III framework shall be calculated based on the deemed residual maturity as mentioned in the above table.

3. Further, if the issuer does not exercise call option for any ISIN then the valuation and calculation of Macaulay Duration shall 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. In addition to the above, if the non-exercise of call option is due to the financial stress of the issuer or if there is any adverse news, the same shall be reflected in the valuation.

4. Further, AMFI is advised to issue detailed guidelines with respect to valuation of bonds issued under Basel III framework, which shall be implemented by April 01, 2021.
5. Further, all other provisions mentioned in the circular No. SEBI/HO/IMD/DF4/CIR/P/2021/032 dated March 10, 2021 remains same.
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 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.

Yours faithfully,

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