



Association of Mutual Funds in India

135/ BP/95/ 2021-22

February 23, 2022

**To,
All AMFI Members**

Dear Members,

AMFI Best Practices Guidelines Circular No.95 / 2021-22

Guidance on Duration, Valuation, Yield & Other Related Disclosures in respect of Floating Rate Bonds

Floating Rate Bonds (FRBs) are increasingly becoming mainstream in Indian Debt Capital Markets. Indian Mutual Funds too have started investing in FRBs issued by a variety of sovereign and non-sovereign entities. FRBs have now become an integral part of the Govt borrowing calendar and many corporates (specially from financial sector) have started issuing FRBs on a regular basis. Parallely there is increasing interest to invest in FRBs.

With the increasing activity and investments in FRBs, AMFI has been getting requests for clarifications and streamline on various aspects of FRBs. Given the growing size and regular issuance of the FRBs, both by the govt. as well as private sector, AMFI Valuation Committee (ValCom) felt that it is expedient to have a uniform practice for valuation of various types of FRBs being issued and traded.

Accordingly, the AMFI ValCom had multiple rounds of discussions on the subject (including with the Valuation Agencies) and has arrived at / recommended below mentioned principles/ Best Practice Guidelines to be uniformly followed by all AMCs –

1) Duration & Valuation :

Given the various types and structures of FRBs in the markets, its necessary to define the duration calculation and valuation for all the known variations in FRBs. Please find attached Annexure A- Floating Rate Valuation Summary which outlines the average maturity, duration and valuation approach for all types of FRBs.

2) YTM / Yield:

The disclosed YTM / Yield of FRB whether sovereign or corporate will be the unhedged YTM for that instrument. This will ensure that the disclosed yield is not significantly different from the current carry of the FRB. This will also bring FRB yields in line with synthetic FRBs created from Bond – Swap. (An example is provided in Annexure – B)

3) **Additional Disclosures:**

FRBs are held across schemes including Non- Floating Rate Funds. While the duration of the FRB has been already captured in the attached excel file, it is necessary to sufficiently highlight the price risk associated with FRBs which are issued for multiple tenors. Hence it is advised that all portfolio disclosures, for schemes which have any form of FRB / Bond-Swap exposures, should have the following additional disclosure which can be a standard disclosure across the MF industry.

- *“This scheme has exposure to floating rate instruments and / or interest rate derivatives. The duration of these instruments is linked to the interest rate reset period. The interest rate risk in a floating rate instrument or in a fixed rate instrument hedged with derivatives is likely to be lesser than that in an equivalent maturity fixed rate instrument. Under some market circumstances the volatility may be of an order greater than what may ordinarily be expected considering only its duration. Hence investors are recommended to consider the unadjusted portfolio maturity of the scheme as well and exercise adequate due diligence when deciding to make their investments”.*

The above guidelines have been duly approved by the Board of AMFI for uniform implementation by all members.

Members are requested to confirm having noted the contents of this circular for due compliance and also to place this circular before their Trustees for information at the next meeting of the Trustees.

With best regards,



B. M. Kini
Dy. Chief Executive



ANNEXURE A

Floating Rate Valuation Summary

Marketable Benchmarks

		FRN1	FRN2	FRN3	FRN4	FRN5
Benchmark		Market determined & amenable to forecasting	Market determined & amenable to forecasting	Market determined & amenable to forecasting	Market determined & amenable to forecasting	Market determined & amenable to forecasting
eg:		MIBOR/ Reverse Repo / Repo/ T-bill/ GSec / (corporate bond benchmarks single or index)	MIBOR/ Reverse Repo / Repo/ T-bill/ GSec / (corporate bond benchmarks single or index)	MIBOR/ Reverse Repo / Repo/ T-bill/ GSec/(corporate bond benchmarks single or index)	MIBOR/ Reverse Repo / Repo/ T-bill/ GSec/(corporate bond benchmarks single or index)	MIBOR/ Reverse Repo / Repo/ T-bill/ GSec/ (corporate bond benchmarks single or index)
Spread		Fixed	Fixed	Fixed	Fixed for part tenor	Fixed for part tenor
Early exit		No early exit	Free investor prerogative notwithstanding any issuer action or lack of it	Conditional exits irrespective of any conditionality or issuer action	Free investor prerogative notwithstanding any issuer action or lack of it	Conditional exits irrespective of any conditionality or issuer action
Cashflows considered for valuation		Till maturity	Each such exit option will be treated as a put option, i.e. The cashflows will be drawn for each put option and till maturity the best price will be considered.	Till maturity	Each such exit option will be treated as a put option, i.e. The cashflows will be drawn for each put option and till maturity the best price will be considered.	Till maturity
Cashflows for Valuation						
Numerator						
Summation of	Benchmark	Forward rates for full tenor	Forward rates till first exit option	Forward rates for full tenor	Forward rates till first exit option	Forward rates for full tenor
	Spread	As given for full tenor	As given till first exit option	As given for full tenor	As given till first exit option	As given for full tenor
Denominator						
Summation of	Benchmark	Cash bond rate for applicable tenor as per numerator	Cash bond rate for applicable tenor as per numerator	Cash bond rate for applicable tenor as per numerator	Cash bond rate for applicable tenor as per numerator	Cash bond rate for applicable tenor as per numerator
	Discount / Premium Factor**	For the applicable tenor	For the applicable tenor	For the applicable tenor	For the applicable tenor	For the applicable tenor
Maturity (if required)		Till the full tenor	Till the full tenor	Till the full tenor	Till the full tenor	Till the full tenor
Duration		Till next benchmark reset date	Till next benchmark reset date	Till next benchmark reset date	Till next benchmark reset date	Till next benchmark reset date

**a bps factor that equates the fully hedged floating bond coupon to the fixed rate bond yield on day 1, and subsequently whenever a trade happens in the same / similar floating rate bond



Non-Marketable Benchmarks

		FRN1	FRN2	FRN3	FRN4	FRN5
Benchmark		Non-Market determined	Non-Market determined	Non-Market determined	Non-Market determined	Non-Market determined
eg:		MCLR / PLR / any Benchmark where the benchmark setter has the prerogative to change unilaterally	MCLR / PLR / any Benchmark where the benchmark setter has the prerogative to change unilaterally	MCLR / PLR / any Benchmark where the benchmark setter has the prerogative to change unilaterally	MCLR / PLR / any Benchmark where the benchmark setter has the prerogative to change unilaterally	MCLR / PLR / any Benchmark where the benchmark setter has the prerogative to change unilaterally
Spread		Fixed	Fixed	Fixed	Fixed for part tenor	Fixed for part tenor
Early exit		No early exit	Free investor prerogative notwithstanding any issuer action or lack of it	Conditional exits irrespective of any conditionality	Free investor prerogative notwithstanding any issuer action or lack of it	Conditional exits irrespective of any conditionality
Cashflows considered for valuation		Till maturity	Each such exit option will be treated as a put option, i.e. The cashflows will be drawn for each put option and till maturity the best price will be considered.	Till maturity	Each such exit option will be treated as a put option, i.e. The cashflows will be drawn for each put option and till maturity the best price will be considered.	Till maturity
Cashflows for valuation						
Numerator						
Summation of	Benchmark	Current benchmark till maturity, in case of floor cap, floor benchmark for all future cashflows post first reset (if any)	Current benchmark till first exit option, floor benchmark for all future cashflows post first reset (if any), if that falls before first exit date	Current benchmark till maturity, in case of floor cap, floor benchmark for all future cashflows post first reset (if any)	Current benchmark till first exit option, floor benchmark for all future cashflows post first reset (if any), if that falls before first exit date	Current benchmark till maturity, in case of floor cap, floor benchmark for all future cashflows post first reset (if any)
	Spread	As given for full tenor, floor spread post first reset (if any)	As given till first exit, floor spread post first reset (if any), if that falls before first exit	As given for full tenor, floor spread post first reset (if any)	As given till first exit, floor spread post first reset (if any), if that falls before first exit	As given for full tenor, floor spread post first reset (if any)
Denominator						
Summation of	Benchmark	Cash bond rate for applicable tenor	Cash bond rate for applicable tenor	Cash bond rate for applicable tenor	Cash bond rate for applicable tenor	Cash bond rate for applicable tenor
	Discount / premium factor**	For the applicable tenor	For the applicable tenor	For the applicable tenor	For the applicable tenor	For the applicable tenor
Maturity (if required)		Till the full tenor	Till the full tenor	Till the full tenor	Till the full tenor	Till the full tenor
Duration		Basis the numerator cashflows drawn	Basis the numerator cashflows drawn	Basis the numerator cashflows drawn	Basis the numerator cashflows drawn	Basis the numerator cashflows drawn

**a bps factor that equates the fully hedged floating bond coupon to the fixed rate bond yield on day 1, and subsequently whenever a trade happens in the same / similar floating rate bond



Annexure B

Disclosed Yield or Disclosed YTM calculation - FRB

XYZ scheme

	FV (Rs crs)	Coupon, which is used for int accural	Price	Acc int	MV Rs crs	% of AUM	YTM	Avg Mat	Duration
Fixed Bonds	70	6.00%	96.750	1.250	68.975	69.3%	6.50%	10.000	6.500
FRB M+150	30	5.00%	100.500	0.350	30.500	30.7%	4.96%	3.000	0.003
IRS	0				0.000	0.0%			
M	0	3.50%			0.000	0.0%	3.50%		
	100				99.475	100.0%	6.03%	7.854	4.508

3 yr Mibor + 150 paper; Coupon
divided by dirty price for YTM calc

XYZ scheme

	FV (Rs crs)	Coupon, which is used for int accural	Price	Acc int	MV Rs crs	% of AUM	YTM	Avg Mat	Duration
Fixed Bonds	70	6.00%	96.750	1.250	68.975	69.3%	6.50%	10.000	6.500
FRB M+150	30	5.00%	100.500	0.350	30.500	30.7%	4.96%	3.000	0.003
IRS recd	15	4.85%	100.090	0.004	15.018	15.1%	4.80%	2.000	1.800
M paid	-15	3.50%	100.000	0.003	-15.003	-15.1%	3.50%	2.000	0.003
	100				99.490	100.0%	6.22%	7.853	4.779

3 yr Mibor + 150 paper; Coupon
divided by dirty price for YTM calc

2 yr IRS recd

XYZ scheme

	FV (Rs crs)	Coupon, which is used for int accural	Price	Acc int	MV Rs crs	% of AUM	YTM	Avg Mat	Duration
Fixed Bonds	70	6.00%	96.750	1.250	68.975	69.4%	6.50%	10.000	6.500
FRB M+150	30	5.00%	100.500	0.350	30.500	30.7%	4.96%	3.000	0.003
IRS paid	-15	5.00%	100.110	0.004	-15.021	-15.1%	5.04%	3.000	2.750
M recd	15	3.50%	100.000	0.003	15.003	15.1%	3.50%	3.000	0.003
	100				99.458	100.0%	5.80%	7.855	4.094

3 yr Mibor + 150 paper; Coupon
divided by dirty price for YTM calc

3 yr IRS paid