

FINANCIAL BENCHMARKS INDIA PRIVATE LIMITED

Press Release

Date: March 29, 2019

Valuation of State Development Loans (SDLs) using a new Methodology

Reserve Bank of India vide their circular DBR. BP. No. 002/21.04.141/2018-19 dated July 27, 2018 on Prudential Norms for Classification, Valuation and Operation of Investment portfolio by banks - Valuation of State Development loans, have directed that “the securities issued by each state government, i.e., SDLs will be valued in a manner which would objectively reflect their fair value based on observed price/yield. Financial Benchmarks India Pvt. Ltd shall make available prices for valuation of SDLs based on the above principles ...” The Financial Benchmarks India Pvt. Ltd. (FBIL) subsequently held extensive consultations with all the relevant stakeholders and taking into account the feedback received from them has formulated a new methodology for valuation of SDLs based on the transaction-level data in respect of SDLs.

It has been decided, with the approval of RBI, to publish the price/yield of SDLs based on the new methodology with effect from April 15, 2019. The Fixed Income Money Market and Derivatives Association (FIMMDA) has been appointed as the calculating agent for this purpose.

As per the extant methodology for valuation of SDLs, on any business day, while the traded securities are valued at their last traded price/yield, those that are not traded are valued by adding 25 basis points to the par yield-to-maturity of the G-Sec of equivalent residual maturity, as calculated and published by FBIL. The new methodology retains the similar approach in respect of traded SDLs but delinks the valuation of non-traded SDLs from that of G-Secs. For the latter-mentioned purpose, it resorts to interpolation/extrapolation of traded data, combined with SDL auction numbers. The aim here is to make use of as much information as possible from the relatively scarce traded data, while ensuring that the trades that are determined as inconsistent and/or misaligned with the market are eliminated, following a set of well-defined and objective rules. For the purpose of consolidation of all traded data, the new methodology makes no distinction between the issuer state governments.

UDAY/DISCOM bonds/securities issued by the State Governments will be valued at par with SDL.

The new methodology document, which also contains illustrations in respect of its major steps has been placed on the FBIL’s website: www.fbil.org.in.
