

DRAFT CIRCULAR FOR PUBLIC COMMENTS

Valuation of repurchase (repo) transactions with tenor of upto 30 days

1. In terms of the extant provisions of Regulations 25(19) and 47 read with Eighth Schedule of SEBI (Mutual Funds) Regulations, 1996, norms for valuation of investments by schemes of Mutual Funds have been specified under paragraph 9.6 of the SEBI Master Circular dated June 27, 2024 on Mutual Funds (“Master Circular”).
2. As per the aforesaid norms, valuation of all investments by Mutual Funds in money market and debt securities, except certain securities which include repurchase transactions with tenor of upto 30 days, is to be carried out on a mark-to-market basis. As regards the repurchase (repo) transactions (including tri-party repo i.e, TREPS) with tenor of upto 30 days, the same are permitted to be valued on a cost plus accrual basis i.e., amortisation based valuation.
3. Considering the above valuation methodologies, a scenario may arise wherein commercial papers of an issuer (E.g. ‘A’) would be valued at mark-to-market basis whereas borrowing through repos on corporate bond, by the same entity (i.e. ‘A’), would be valued at cost plus accrual basis. Thus, in such cases, impact of any event/adverse news concerning the above issuer may get reflected faster in the valuation of its commercial papers and consequently NAV as compared to the repo transactions, thereby creating an unintended regulatory arbitrage.
4. Based on the consultation with industry participants as well as the recommendation of the Mutual Fund Advisory Committee (MFAC), it is proposed that the valuation of investments by Mutual Funds in repo transactions of tenor upto 30 days may also be mandated to be carried out on a mark to market basis. The same shall be in line with the valuation norms for investments by Mutual Funds in other money market and debt instruments.

Public Comments

5. Public comments are invited on the draft Circular on “**Valuation of repurchase (repo) transactions by Mutual Funds**”, placed at Annexure A. The comments/ suggestions should be submitted latest by November 14, 2024, through the following link:

<https://www.sebi.gov.in/sebiweb/publiccommentv2/PublicCommentAction.do?doPublicComments=yes>

6. The instructions to submit comments on the consultation paper are as under:
- i. *Before initiating the process, please read the instructions given on top left of the web form as “Instructions”.*
 - ii. *Select the consultation paper you want to comment upon from the dropdown under the tab – “Consultation Paper” after entering the requisite information in the form.*
 - iii. *All fields in the form are mandatory.*
 - iv. *Email ID and phone number cannot be used more than once for providing comments on a particular consultation paper.*
 - v. *If you represent any organization other than the types mentioned under dropdown in “Organization Type”, please select “Others” and mention the type, which suits you best. Similarly, if you do not represent any organization, you may select “Others” and mention “Not Applicable” in the text box.*
 - vi. *There will be a dropdown of Proposals in the form. Please select the proposals one-by-one and for each of the proposal, please record your level of agreement with the selected proposal. Please note that submission of agreement level is mandatory.*
 - vii. *If you want to provide your comments for the selected proposal, please select “Yes” from the dropdown under “Do you want to comment on the proposal” and use the text boxes provided for the same.*
 - viii. *After recording your response to the proposal, click on “Submit” button. System will save your response to the selected proposal and prompt you to record your response for the next proposal. Please follow this procedure for all the proposals given in the dropdown.*
 - ix. *If you do not want to react on any proposal, please select that proposal from the dropdown and click on “**Skip this proposal**” and move to the next proposal.*

- x. *After recording your response to all the proposals, you may see your draft response to all of proposals by clicking on “**Check your response before submitting**” just before submitting response to the last proposal in the dropdown. A pdf copy of the response can also be downloaded from the link given in right bottom of the web page.*
 - xi. *The final comments shall be submitted only after recording your response on all of the proposals in the consultation paper.*
7. In case of any technical issue in submitting your comment(s) through web based public comments form, you may contact on peterm@sebi.gov.in and laxmir@sebi.gov.in with the subject “**Valuation of repurchase (repo) transactions by Mutual Funds**”.

Encl.: Annexure A

Issued on: October 24, 2024

Draft Circular

SEBI/HO/IMD/IMD-I PoD-1/P/CIR/2024/

November XX, 2024

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

Sir/ Madam,

Subject: Valuation of repurchase (repo) transactions by Mutual Funds.

1. Chapter 9 of the SEBI Master Circular dated June 27, 2024 on Mutual Funds (“Master Circular”), which specifies the provisions for valuation of investment in securities by Mutual Funds, *inter alia* mandate that money market and debt securities with residual maturity over 30 days shall be valued as per the prices obtained from the Association of Mutual Funds in India (AMFI) empanelled valuation agencies and the methodology specified therein.
2. Para 9.6.2 of the Master Circular *inter alia* specifies that the repurchase (repo) transactions (including tri-party repo i.e. TREPS) shall be required to be valued on cost plus accrual basis.
3. In order to have uniformity in valuation methodology of all money market and debt instruments and to address the concerns of unintended regulatory arbitrage that may arise due to different valuation methodology adopted, it has been decided that the valuation of repurchase (repo) transactions including tri-party repo i.e, TREPS with tenor of upto 30 days shall also be valued at mark to market basis. Accordingly, paragraph 9.6.2 of the Master Circular stands modified as under:

“Investments in short-term deposits with banks (pending deployment) shall be valued on cost plus accrual basis.”

4. Further, valuation of all repo transactions, except for overnight repos, in addition to the valuation of money market and debt securities, shall be obtained from valuation agencies. Accordingly, paragraph 9.2.3 (b) of the Master Circular stands modified as under:

“Valuation of money market and debt securities:

1. *All money market and debt securities including floating rate securities shall be valued at average of security level prices obtained from valuation agencies.*
 2. *In case security level prices given by valuation agencies are not available for a new security (which is currently not held by any Mutual Fund), then such security may be valued at purchase yield/price on the date of allotment / purchase.”*
5. The provisions of this circular shall be applicable within 30 days from the date of issuance of this circular.
6. This circular is issued in exercise of the powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, read with the provision of Regulations 25(19), 47 and 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.