

HSBC Mutual Fund - Snapshot of Valuation Policy - Annexure A

Sr. No	Type of Instrument	Basis of Valuation
1	EQUITY	
1.1	Listed Equity	To be valued at the last quoted closing price on NSE (primary exchange for HSBC) else BSE or other recognized stock exchange where the security is listed
1.2	Non traded Equity (<i>Equity Not traded on any of the exchanges for a continuous period of 30 calendar days</i>)	At Fair value as per SEBI formula i.e. AMC to value the securities based on SEBI valuation guidelines as per circular dated September 18, 2000 and May 09, 2002 (i.e. use of Net worth and EPS capitalization method as prescribed by SEBI formula). If more than 9 months have elapsed from the end of Financial year and Audited Balance Sheet is not available, the security shall be valued at Nil. In determining the valuation as per aforesaid methodology, the valuation committee will also assess the realizable value of the security and document its rationale for applying a particular valuation price.
1.3	Thinly Traded Equity (<i>Trading on all the exchanges in a particular calendar month is both less than Rs 5 lakhs in value and total volume is less than 50000 shares</i>)	
1.4	Unlisted Equity	
1.5	Illiquid securities (<i>Non-traded / thinly traded / unlisted equity security is in excess of 15% of total net assets of the scheme in case of open-ended funds and 20% in case of close-ended funds</i>)	Nil Value

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1.6	Equity shares which are unlisted as a result of corporate actions (<i>i.e. Mergers, Demergers, reduction of capital, consolidation, etc.</i>)	<p>a) <u>Demerger</u>: Where at least one resultant company is not immediately listed, valuation price will be worked out by using cum-price before corporate action as reduced by the quoted price of the listed resultant company after providing for appropriate illiquidity discount but a minimum illiquidity discount of 10%</p> <p>b) <u>Corporate Action Pending listing</u>: In case of a corporate action pending listing, the resultant company/ies shall be valued at fair value as determined by the valuation committee on the date of corporate action after providing for appropriate illiquidity discount but a minimum illiquidity discount of 10%.</p> <p>c) <u>Merger</u>: <u>In cases where identity of entities getting merged is lost and the new entity is yet unlisted</u> - Valuation of merged entity would be arrived at by summation of previous day's value of respective companies prior to the merger divided by the entitled quantity of the merged entity. For example, If company A and company B merge to form a new company C, then company C would be valued at price equal to that of value of company A + company B</p> <p><u>In cases where identity of one entity continues</u> - Valuation of merged entity would be according to the closing price of the surviving entity</p> <p>However, if more than 9 months have elapsed from the date of corporate action and the company/ies is /are still not listed, the same shall be valued in accordance with the methodology stated in 1.2, 1.3 and 1.4 above</p>
1.7	Equity Shares which are allotted pursuant to IPO and are pending listing	<p>a) At acquisition cost up to 30 days from the date of allotment.</p> <p>b) In case the security is not listed within 30 days from the allotment date, the valuation shall be arrived at in good faith by the Valuation Committee of the AMC. The rationale shall be documented and recorded.</p>

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1.8	Buy-back of Securities	If a company offers to buy-back hundred percent of the shares tendered then shares will be valued at the price of buy-back, ignoring the market price. Else, market price of the shares will be considered for valuation till formal confirmation of acceptance of shares tendered under the buy-back schemes. Quantum of shares accepted under buy-back will be accounted as a sale trade on receipt of formal confirmation of such acceptance.
2	PREFERENCE SHARES	
2.1	Traded	At Traded Price
2.2	Non-traded	At cost or at fair value as determined by the valuation committee
3	ADR's/GDR's	
3.1	Conversion rate - Forex	On valuation date, all assets and liabilities in foreign currency shall be valued in Indian Rupees at the RBI reference rate. In case the RBI reference rate is not available, on a particular Valuation Day, the exchange rate available on Bloomberg / Reuters will be used for conversion.
3.2	ADR/ GDR Security Price - Traded	Foreign securities shall be valued based on the last quoted closing prices at the Overseas Stock Exchange on which the respective securities are listed. However, the AMC shall select the Primary stock exchange prior to transacting in any scheme in case a security is listed on more than one stock exchange and the reasons for the selection will be recorded in writing. Any subsequent change in the reference stock exchange used for valuation will be necessarily backed by reasons for such change being recorded in writing by the AMC and approved by the Valuation Committee. However, in case of extra ordinary event in other markets post the closure of the relevant markets, the AMC shall value the security at suitable fair value as determined by the Valuation Committee. When on a particular valuation day, a security has not been traded on the selected stock exchange; the value at which it is traded on another stock exchange or last quoted closing price on the selected stock exchange shall be

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		<p>used provided such date is not more than thirty days prior to the valuation date.</p> <p>Due to difference in time zones of different markets, in case the closing prices of securities are not available within a given time frame to enable the AMC to upload the NAV for a Valuation Day, the AMC may use the last available traded price/ previous day's price for the purpose of valuation. The use of the closing price / last available traded price for the purpose of valuation will also be based on the practice followed in a particular market.</p> <p>Closing Quote on T-1 of the security sourced from NYSE / Bloomberg or other recognized international stock exchange</p>
	ADR/ GDR Security Price – Non-Traded	Non-traded ADR/ GDRs shall be valued after considering prices/ issue terms of underlying security. Valuation Committee shall decide the appropriate discount for illiquidity. Non traded foreign security shall be valued by AMC at fair value after considering relevant factors on case to case basis.
4	WARRANTS	
4.1	Traded warrants	At quoted price
4.2	Non-traded warrants	
4.2.1	Exercise price is lower than the value of the underlying share	Value of the underlying share less exercise price with illiquidity discount as may be deemed appropriate by the valuation committee with an appropriate illiquidity discount
4.2.2	Exercise price is higher than the value of the share	At Zero
5	RIGHTS ENTITLEMENTS / PARTLY PAID UP RIGHTS SHARES	
5.1	Traded Rights	At quoted price
5.2	Non-traded Rights	
5.2.1	Exercise price is lower than the value of the underlying share	Value of the underlying share less exercise price with illiquidity discount as may be deemed appropriate by the valuation committee.
5.2.2	Exercise price is higher than the value of the share	At Zero
6	FUTURES AND OPTIONS (F&O)	
6.1	Futures	To be valued at the settlement price as released by NSE

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6.2	Options	To be valued at the settlement price as released by NSE
7	INTEREST RATE SWAPS (IRS)	
7.1	Traded	At traded price
7.2	Non-traded:	
7.2.1	IRS having maturity less than or equal to 30 days	Amortized from last traded price / valuation price
7.2.2	IRS having maturity greater than 30 days	Present Value of net cash flows for both the leg. The same should be discounted using the YTM yields on the relevant OIS page of Reuters /Bloomberg / any other public platform for the relevant bucket and duly interpolated.
7.2.3	IRS having maturity greater than 30 days, subsequently reduces to < or = 30 days	Same as 7.2.1 above
8	OVERNIGHT INSTRUMENTS	
8.1	Reverse Repo	At cost plus accruals
8.2	TREPS (Tri Party Repo Dealing System)	At cost plus accruals
9	FIXED DEPOSITS	
9.1	Fixed Deposits	At cost plus accruals
10	CONVERTIBLE DEBENTURES	
10.1	Non-convertible components	Refer point 11 below
10.2	Convertible components	The convertible component shall be valued on same basis as underlying equity instrument after providing for appropriate illiquidity discount in accordance with investment valuation norms prescribed by SEBI in the Eight Schedule
11	DEBT AND MONEY MARKET SECURITIES (INCLUDING CENTRAL AND STATE GOVERNMENT SECURITIES ,TREASURY BILLS AND CASH MANAGEMENT BILLS)	
11.1	Securities rated above investment grade and having residual maturity of more than 30 days (Also refer Note 1)	To be valued on the basis of prices determined from the aggregator tool as notified by AMFI, based on price feeds received from CRISIL and ICRA and / or any other AMFI notified agency(ies)
11.2	Securities rated above investment grade & having residual maturity of 30 days or less	

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11.2.1	Traded Securities	<p>At weighted average traded prices as long as the weighted average traded price remains within threshold of $\pm 0.025\%$ of the reference price. The Reference price will be average of security level price provided by AMFI appointed agencies (currently CRISIL and ICRA). In case the weighted average traded price is falling outside the above threshold, the Price of the asset will be adjusted in order to bring the price within threshold of + or - 0.025%.</p> <p>A security will get classified as traded in case the AMC has itself traded in that security. Moreover, in case of AMC's own trade, only a trade of a market lot or more (Face Value of INR 5 crores) will be taken as reflective of realizable value.</p>
11.2.2	Non-Traded Securities	<p>a) Assets to be amortized on straight line amortization basis as long as the amortised price remains within threshold of $\pm 0.025\%$ of the reference price. The Reference price will be average of security level price provided by AMFI appointed agencies (currently CRISIL and ICRA).</p> <p>b) In case of amortized value falling outside the above threshold, the Price of the asset will be adjusted in order to bring the price within threshold of + or - 0.025%.</p>
11.3	Securities Rated Below Investment Grade	
	<p>a) To be valued on the basis of valuation price for such securities provided by CRISIL and ICRA / or any other AMFI notified agency (ies)</p> <p>b) Till such time the valuation agencies compute the valuation of money market and debt securities classified as below investment grade, such securities shall be valued on the basis of indicative haircuts provided by these agencies. These indicative haircuts shall be applied on the date of credit event i.e. migration of the security to sub-investment grade and shall continue till the valuation agencies compute the valuation price of such securities. Further, these haircuts shall be updated and refined, as and when there is availability of material information which impacts the haircuts.</p> <p>c) Consideration of traded price for valuation:</p> <ul style="list-style-type: none"> ○ In case of trades during the interim period between date of credit event and receipt of valuation price from valuation agencies, AMC shall consider 	

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		<p>such traded price for valuation if it is lower than the price post standard haircut. The said traded price shall be considered for valuation till the valuation price is determined by the valuation agencies.</p> <ul style="list-style-type: none"> ○ In case of trades after the valuation price is computed by the valuation agencies as referred above and where the traded price is lower than such computed price, such traded price shall be considered for the purpose of valuation and the valuation price may be revised accordingly. ○ The trades referred above shall be of a minimum size as determined by valuation agencies. Till such time Valuation Agencies define such minimum size, a security will be considered as traded security as defined in Note 5. <p>d) AMC may deviate from the indicative haircuts and/or the valuation price for money market and debt securities rated below investment grade provided by the valuation agencies and consider a fair valuation approach for valuation of principal and interest subject to the following:</p> <ul style="list-style-type: none"> ○ The detailed rationale for deviation from the price post haircuts or the price provided by the valuation agencies shall be recorded by the Valuation Committee/AMC. ○ The rationale for deviation along-with details such as information about the security (ISIN, issuer name, rating etc.), price at which the security was valued vis-a-vis the price post haircuts or the average of the price provided by the valuation agencies (as applicable) and the impact of such deviation on scheme NAV (in amount and percentage terms) shall be reported to the Board of AMC and Trustees. ○ The rationale for deviation along-with details as mentioned above shall also be disclosed to investors. In this regard, the AMC shall disclose instances of deviations on our website. Further, the total number of such instances shall also be disclosed in the monthly and half-yearly portfolio statements for the relevant period along-with an exact link to the website wherein the details of all such instances of deviation are available. <p>e) The Valuation Committee shall also provide guidance on treatment of interest accrued and further accrual of interest on such security.</p>
12	SECURITIES RATED ABOVE INVESTMENT GRADE AND WITH PUT/CALL OPTION, WHERE OPTION IS EXERCISED	
12.1	Securities where PUT option or CALL option is exercised with a residual maturity of 30 days or less	To be valued to Put or call date (being deemed maturity date), as the case may be and accordingly to be valued in accordance with 11.2 above ignoring the price feeds

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		received from CRISIL and ICRA and / or any other AMFI notified agency(ies)
12.2	Securities where PUT option or CALL option is exercised with a residual maturity of more than 30 days	To be valued to Put or call date (being deemed maturity date), as the case may be on the basis of guidelines provided by the valuation committee. In approving such valuations, the valuation committee shall follow the principles of fair valuation and provide suitable justification for the same.
13	INVESTMENT IN MF UNITS (INCLUDING OVERSEAS MF UNITS / TRUSTS)	
13.1	Listed and Traded	Closing traded price as on the valuation date.
13.2	Unlisted or Listed but not traded	To be valued at the NAV as on the valuation date.
14	NPA's [DEBT SECURITIES OTHER THAN G-SECS]	
14.1	<i>An 'asset' shall be classified as non-performing, if the interest and/or principal amount have not been received or remained outstanding for one quarter from the day such income / installment has fallen due.</i>	
	The provisioning against the principal amount or instalments should be made at the following rates	
		10% of the book value after 6 months i.e. 3 months from the date of classification of the asset as NPA.
		20% of the book value after 9 months, i.e. 6 months from the date of classification of the asset as NPA.
		Another 20% after 12 months, i.e. 9 months from the date of classification of the asset as NPA.
		Another 25% after 15 months, i.e. 12 months from the date of classification of the asset as NPA.
		The balance 25% after 18 months, i.e. 15 months from the date of classification of the assets as NPA.
15	GUIDELINES FOR INTER-SCHEME TRANSFERS	
15.1	Government securities, Treasury bills, Cash Management bills, State Development loans	<p>Inter-scheme would be done at last traded YTM on NDS-OM at the time of inter-scheme. Trades in market lot shall only be considered.</p> <p>In case no trades are available on NDS-OM, last valued price will be considered.</p>

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15.2	Fixed Income Securities (Other than Government securities, Treasury bills, Cash Management bills, State Development loans)	<p>Inter-scheme would be done at weighted average YTM of all trades in market lot as reported on public platform for same or similar securities (Also refer note 4) at the time of inter-scheme.</p> <p>In case no data point as per above mentioned criteria is available on public platform at the time of effecting inter-scheme, last valued price will be considered.,</p>

Notes :

- 1 In case the price feeds for a particular security is not received from the AMFI notified agencies, the same shall be valued at weighted average traded^{###} prices (in case of coupon bearing instruments) and at weighted average traded^{###} yields (in case of discount instruments)

^{###} A security will qualify as traded security

if :

i) For instruments maturing above 1 year, there are at least two trades aggregating to face value of Rs. 25 crores or more on a public platform^{***}

ii) For instruments maturing between 31 days and 1 year, there are at least three trades aggregating to face value of Rs. 100 crores or more on a public platform^{***}

Further, in case of AMC's own trade, only a trade of a market lot or more (Face Value of INR 5 crores) will be taken as reflective of realizable value

^{***} Public Platform refers to :

a) FIMMDA and Exchange (NSEWDM & BSE): For Corporate Bonds / Debentures, commercial papers, Certificate of Deposits and Securitized debts

b) NDS-OM: For GOI securities, State Development Loans and Treasury & Cash management bills

In case there are both qualifying market trades and AMC trades, the market trades would be given a higher priority.

In case of multiple platforms reporting trades on the same day, the order of preference would be FIMMDA, Exchange (NSE WDM, BSE) and own trades.

The qualifying criteria will be observed at the exchange/platform level (as the same trades may be reported on multiple platforms).

- 2 In case the price feeds for a particular security is neither received from the AMFI notified agencies nor are the traded prices / YTM available for the same, the same shall be valued on the basis of guidelines provided by the valuation committee. In approving such valuations, the valuation committee shall follow the principles of fair valuation and provide suitable justification for the same.
- 3 In case the valuation committee is of the opinion that the price feeds provided by AMFI notified agencies are not reflective of fair value/ realizable value of the security, the same shall be valued on the basis of guidelines provided by the valuation committee. In approving such valuations, the valuation committee shall follow the principles of fair valuation and provide suitable justification for the same.

- 4 Similar securities criteria would be as follows:
- a) Clustering of Debt Issuer universe based on outstanding rating (long term & Short term) & type of entity
 - b) Similar Security Type -CD/CP/PTCs/NCDs
 - c) Similar Maturity
- 5 In case of securities rated below investment grade, a security will qualify as traded security if:
- a) For instruments maturing above 1 year, there are at least two trades aggregating to face value of Rs. 25 crores or more on a public platform*****
 - b) For instruments up to 1 year maturity, there are at least three trades aggregating to face value of Rs. 100 crores or more on a public platform*****
- Further, in case of AMC's own trade, only a trade of a market lot or more (Face Value of INR 5 crores) will be taken as reflective of realizable value

*****Public Platform refers to :

FIMMDA and Exchange (NSEWDM & BSE): For Corporate Bonds / Debentures, commercial papers, Certificate of Deposits and Securitized debts.

In case there are both qualifying market trades and AMC trades, the market trades would be given a higher priority.

In case of multiple platforms reporting trades on the same day, the order of preference would be FIMMDA, Exchange (NSE WDM, BSE) and own trades.

The qualifying criteria will be observed at the exchange/platform level (as the same trades may be reported on multiple platforms).

Disclaimer :

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