

# Valuation methodology for FRB benchmark

Crisil Funds and Fixed Income Research

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## Background

CRISIL Funds and Fixed Income Research provides input curve for floating rate benchmark bonds on daily basis.

Currently we provide a curve for our overnight index swap (OIS) benchmark. This curve is used by various AMCs to value their floating rate bonds linked to OIS curve.

OIS is a category of interest rate swaps where the floating leg is linked to an overnight index, compounded every day over of the payment period. The parties agree to exchange the difference in the accrued interest arrived at according to the fixed and floating interest rates at the maturity on the notional principal amount.

## Valuation methodology

- OIS curve is sourced from a third-party vendor after 5 pm every working day
- Tenors ranging from overnight rate, 1month, 2month, 3month, 6month, 9month, 1 year to 10 year are sourced every day
- The tenors falling in between, such as 1.5 year and 2.5 year, are arrived at using simple average of previous and next bucket.
- 15 working days moving average is calculated on the OIS rates to arrive at final curve for the given day
- Output is shared with client in Encrypted and Decrypted format which is required as an input to Crisil Bond valuer for OIS linked bonds

## Quality check

Review of the curve is done by secondary analyst and previous day changes are reviewed as well.

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