



PENSION FUND REGULATORY AND DEVELOPMENT AUTHORITY

CIRCULAR

File No.: PFRDA/2013/19/PFM/5

Date: 11th Dec. 2013

To,

All Pension Funds

Subject: Accounting Policy for Inflation Linked Bonds

1. Inflation Indexed Bonds (IIB) 2013-14 issued by RBI has a fixed real coupon rate and a nominal principal value that is adjusted against inflation. Coupons will be paid on adjusted principal and on maturity, the adjusted principal or face value (whichever is higher) will be paid. For providing inflation protection, Final Wholesale Price Inflation (WPI) will be used with four months lag.
2. The Index Ratio (IR) is to be computed by dividing reference index for the settlement date by reference index for issue date (i.e., $IR_{\text{setdate}} = \text{Ref. Inflation Index}_{\text{setdate}} / \text{Ref. Inflation Index}_{\text{Issue Date}}$). The formulae for calculating Ref WPI for a specific date is:

$$\text{Ref WPI}_{\text{Date}} = \text{Ref WPI}_M + \frac{(t - 1)}{D} \times [\text{Ref WPI}_{M+1} - \text{Ref WPI}_M]$$

Date = valuation date

D = the number of days in the month in which the Date falls

t = the calendar day corresponding to Date

Ref WPI_M = Ref WPI for the first day of the calendar month in which Date falls

Values to be truncated to six decimals and rounded to five decimals.

3. Through interpolation, the daily Ref WPI should be computed for a particular month with the above noted formula and also the daily Index Ratio has to be derived therefrom.
4. For the purpose of accounting IIB in NPS Schemes, the accruals of interest on IIB are to be calculated daily on the inflation adjusted principal (Principal X Index Ratio_{setdate}) with the applicable real rate of return and may be valued in accordance with the valuation guidelines issued by FIMMDA. Moreover, if any variances arise due to actual coupons receipts vis a vis the accruals, it should be appropriated to the Schemes on the coupon due date.

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