



Waterfall Approach and Money Market

In order to bring uniformity and consistency in valuation, market regulator Securities and Exchange Board of India (SEBI) has asked mutual fund houses to follow **the "waterfall" approach** for the valuation of money market and debt securities.

- **SEBI** noted various instances wherein mutual funds have used their own trades of relatively small quantities in order to value the entire holding of such security. To avoid this, the waterfall approach is to be adopted.
- Under the Waterfall Approach, all traded securities would be valued on the basis of traded yields
 - For Government Securities (including T-bills), **Volume Weighted Average Yield (VWAY)** for trades in the last one hour of trading shall be used.
 - Valuation of all other money market and debt securities (including Government securities not traded in the last one hour) shall be done on the basis of VWAY of all trades during the day.

Volume Weighted Average Yield (VWAY)

- It is a **trading benchmark** used by traders that gives the **average price security** has traded throughout the day, based on both **volume and price**.
- It is important because it provides traders with **insight into** both the **trend and value of a security**

Money Market Fund

- **Money Market Mutual Funds (MMMF)** are short-run liquid investments which invest in high-quality money market instruments such as Treasury Bills (T-Bills), Repurchase Agreements (Repos), Commercial Papers and Certificate of Deposits.
- Money Market Fund is an **open-ended** mutual fund.
- It invests in **short-term debt securities** like treasury bills and commercial paper.
 - Debt securities funds invest in **fixed income securities** like bonds and treasury bills.

[Source: BS](#)