



**CIRCULAR**

SEBI/HO/IMD/DF1/CIR/P/2020/26

February 13, 2020

**To,**

**All Portfolio Managers,**

Dear Sir/ Madam,

**Sub: Guidelines for Portfolio Managers**

1. Securities and Exchange Board of India (SEBI), based on the recommendations of a Working Group and inputs from public consultation, reviewed the framework for regulation of Portfolio Managers and the SEBI (Portfolio Managers) Regulations, 2020 ("PMS Regulations") has been notified on January 16, 2020. (Available at [Link](#))
2. In addition to the above, certain changes to the regulatory framework for Portfolio Managers are mandated as under:

**A. Fees and Charges**

3. In partial modification to Cir. /IMD/DF/13/2010 dated October 05, 2010 on Regulation of Fees and Charges, the following is mandated:
  - (i) As provided in Regulation 22 (11) of the PMS Regulations, no upfront fees shall be charged by the Portfolio Managers, either directly or indirectly, to the clients.
  - (ii) Brokerage at actuals shall be charged to clients as expense.
  - (iii) Operating expenses excluding brokerage, over and above the fees charged for Portfolio Management Service, shall not exceed 0.50% per annum of the client's average daily Assets under Management (AUM).
  - (iv) In case client portfolio is redeemed in part or full, the exit load charged shall be as under:
    - a) In the first year of investment, maximum of 3% of the amount redeemed.



- b) In the second year of investment, maximum of 2% of the amount redeemed.
- c) In the third year of investment, maximum of 1% of the amount redeemed.
- d) After a period of three years from the date of investment, no exit load.
- (v) The Annexure to the Client agreement referred in Paragraph 4 g) of the aforementioned Circular shall be suitably modified for a sample portfolio of INR 50 Lacs as against the present illustration for INR 10 Lacs.
- (vi) Charges for all transactions in a financial year (Broking, Demat, custody etc.) through self or associates shall be capped at 20% by value per associate (including self) per service. Any charges to self/associate shall not be at rates more than that paid to the non-associates providing the same service.

#### **B. Direct on-boarding of clients by Portfolio Managers**

- 4. Portfolio Managers shall provide an option to clients to be on-boarded directly, without intermediation of persons engaged in distribution services.
- 5. Portfolio Managers shall prominently disclose in its Disclosure Documents, marketing material and on its website, about the option for direct on-boarding.
- 6. At the time of on-boarding of clients directly, no charges except statutory charges shall be levied.

#### **C. Nomenclature 'Investment Approach'**

- 7. The information about Investment Approaches offered by Portfolio Managers, shall be uniform across all types of regulatory reporting, client reporting, disclosure document, marketing materials and any such document which refer to services offered by Portfolio Managers.
- 8. Any description of investment approach provided by Portfolio Managers shall, *inter-alia*, include:



- (i) investment objective
- (ii) description of types of securities e.g. equity or debt, listed or unlisted, convertible instruments, etc.
- (iii) basis of selection of such types of securities as part of the investment approach
- (iv) allocation of portfolio across types of securities
- (v) appropriate benchmark to compare performance and basis for choice of benchmark
- (vi) indicative tenure or investment horizon
- (vii) risks associated with the investment approach
- (viii) other salient features, if any.

**D. Periodic reporting by Portfolio Managers**

9. In partial modification to Circular IMD/PMS/CIR/1/21727/03 dated November 18, 2003 on 'Improvement in Corporate Governance', Portfolio Managers shall report to SEBI on compliance with the provisions of the said Circular on an annual basis as against bi-annual submission.
10. SEBI Circular No. IMD/DOF-1/PMS/Cir-1/2010 dated March 15, 2010 stands superseded. However, with effect from Financial Year 2019-20, Portfolio Managers shall submit the following information to the Board:
  - (i) A certificate from the qualified Chartered Accountant certifying the net-worth as on March 31, every year based on audited account within 6 months from the end of Financial Year.
  - (ii) A certificate of compliance with PMS Regulations and circulars issued thereunder, duly signed by the Principal Officer, within 60 days of end of each financial year. Further, details of non-compliance along with the corrective actions, if any, duly approved by Board of the portfolio manager.
11. Further, in partial modification to Cir. /IMD/DF/14/2010 dated October 08, 2010, Portfolio Managers shall submit a monthly report regarding their portfolio management activity, on SEBI Intermediaries Portal within



7 working days of the end of each month, as per the revised format enclosed in [Annexure A](#).

12. Portfolio Managers shall furnish a report in the format provided at [Annexure B](#), to their clients on a quarterly basis.

**E. Reporting of Performance by Portfolio Managers**

13. Further to Regulation 22 (4)(e) of PMS Regulations, it is clarified that the Portfolio Managers shall:

- (i) Consider all cash holdings and investments in liquid funds, for calculation of performance.
- (ii) Report performance data net of all fees and all expenses (including taxes).
- (iii) Clearly disclose any change in investment approach that may impact the performance of client portfolio, in the marketing material.
- (iv) Ensure that performance reported in all marketing material and website of the Portfolio Manager is the same as that reported to SEBI.
- (v) Ensure that the aggregate performance of the Portfolio Manager (firm-level performance) reported in any document shall be same as the combined performance of all the portfolios managed by the Portfolio Manager.
- (vi) Provide a disclaimer in all marketing material that the performance related information provided therein is not verified by SEBI.

14. The firm-level performance data of Portfolio Managers shall be audited annually. Confirmation of compliance with Paragraph 13 of this Circular shall be reported to SEBI within 60 days of end of each financial year. The said report to SEBI shall be certified by the Directors/Partners of the Portfolio Manager or by person(s) authorized by the Board of Directors/Partners of the Portfolio Manager.



#### **F. Disclosure Documents**

15. Material change, for the purpose of Regulation 22 (7) of PMS Regulations, shall include change in control of the Portfolio Manager, Principal Officer, fees charged, charges associated with the services offered, investment approaches offered (along with the impact of such change) and such other changes as specified by SEBI from time to time.

#### **G. Supervision of Distributors**

16. Further to Regulation 23(10) of PMS Regulations, it is clarified that Portfolio Managers shall:
- (i) Utilize services of only such distributors (whether known as Channel Partners, Agents, Referral Interfaces or by any other name) who have a valid AMFI Registration Number or have cleared NISM-Series-V-A exam.
  - (ii) Pay fees or commission to distributors only on trail-basis. Further, any fees or commission paid shall be only from the fees received by Portfolio Managers.
  - (iii) Ensure that prospective clients are informed about the fees or commission to be earned by the distributors for on-boarding them to specific investment approaches.
  - (iv) Ensure that distributors abide by the Code of Conduct as specified in [Annexure C](#).
  - (v) Have mechanism to independently verify the compliance of its distributors with the Code of Conduct.
  - (vi) Ensure that, within 15 days from the end of every financial year, a self-certification is also received from distributors with regard to compliance with Code of conduct.

#### **H. Applicability**

17. The provisions of this Circular shall be applicable with effect from May 01, 2020.
18. This circular is issued in exercise of powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992 read with the provisions of Regulation 43 of the SEBI (Portfolio Managers) Regulations,



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Securities and Exchange Board of India

2020, to protect the interests of investors in securities market and to promote the development of, and to regulate the securities market.

19. This circular is available on SEBI website at [www.sebi.gov.in](http://www.sebi.gov.in) under the category “Circulars” and “Info for - Portfolio Managers”.

Yours faithfully,

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