



CIRCULAR

SEBI/HO/IMD/IMD-I/DOF1/P/CIR/2022/112

August 26, 2022

To,

All Portfolio Managers

Dear Sir / Madam,

**Subject: Circular for Portfolio Managers**

1. The amendment to SEBI (Portfolio Managers) Regulations, 2020 (“PMS Regulations”) notified on August 22, 2022 (available at [link](#)), *inter-alia* mandates prudential limits on investments in associates/related parties of Portfolio Manager, the requirement of taking prior consent of client for such investments and restrictions based on the credit rating of securities. The definitions of the terms “related party” and “associate” have been provided in the PMS Regulations. The amendment to PMS Regulations shall come into force on the thirtieth day from the date of their publication in the Official Gazette.
2. Pursuant to the above, the Portfolio Managers shall ensure compliance with the following:

**A. Limits on investment in securities of associates / related parties of Portfolio Managers**

Regulation 24 (3A) of PMS Regulations *inter-alia* provides that the Portfolio Manager shall ensure compliance with the prudential limits on investment as may be specified by the Board. Accordingly, the Portfolio Managers shall ensure the following:

- i. Portfolio Manager shall invest up to a maximum of 30 percent of their client’s portfolio (as a percentage of the client’s assets under management) in the securities of their own associates/related parties. Further, the Portfolio Manager shall ensure compliance with the following limits:

Security	Limit for investment in single associate/related party (as percentage of client’s AUM)	Limit for investment across multiple associates/related parties (as percentage of client’s AUM)
Equity	15%	25%
Debt and hybrid securities	15%	25%
Equity + Debt + Hybrid securities	30%	



- ii. The aforementioned limits shall be applicable only to direct investments by Portfolio Managers in equity and debt/hybrid securities of their own associates/related parties and not to any investments in the Mutual Funds.
- iii. Hybrid securities includes units of Real Estate Investment Trusts (REITs), units of Infrastructure Investment Trusts (InvITs), convertible debt securities and other securities of like nature.

**B. Prior consent of the client regarding investments in the securities of associates/related parties**

Regulation 22(1A) of PMS Regulations provides that the Portfolio Manager may make investments in the securities of its related parties or its associates only after obtaining the prior consent of the client in such manner as may be specified by the Board from time to time. Accordingly, the Portfolio Managers shall ensure compliance with the following:

- i. Portfolio Managers shall obtain a one-time prior positive consent of client in the format specified at **Annexure A** (consent form), as a part of the agreement mandated under Regulation 22(1) of the PMS Regulations.
- ii. The consent form shall have an option to indicate dissent, in case the client does not want to undertake any investment in the securities of associates/related parties of respective Portfolio Manager. The client shall also have an option to specify a limit on investments in the securities of associates/related parties of respective Portfolio Manager, below the ceiling specified in para 2 (A) (i) above.
- iii. The text and figures of the consent form shall be prominently highlighted and not be below size 12 font.
- iv. For new clients, the aforementioned consent shall be obtained at the time of entering into agreement, in terms of Regulation 22 (1) of PMS Regulations (i.e., at the time of onboarding of a new client).
- v. For existing clients, the aforementioned consent shall be obtained by way of execution of a supplementary agreement with the clients. In cases where the agreements entered with existing clients contain provision for obtaining consent for investments through a specified mode, the same mode can be used for obtaining aforesaid prior consent for investments in the securities of associates/related parties of the Portfolio Manager as well.
- vi. Portfolio Manager shall not make any investments in the securities of associates/related



parties without the prior consent of the client at the time of on boarding new clients. For existing clients, fresh investments in the securities of associates/related parties of Portfolio Managers can be made only after obtaining consent from the client.

- vii. In the event of passive breach of the specified investment limits, (i.e., occurrence of instances not arising out of omission and/or commission of portfolio manager), a rebalancing of the portfolio shall be completed by Portfolio Managers within a period of 90 days from the date of such breach. Notwithstanding the same, the client may give an informed, prior positive consent to the Portfolio Manager for waiver from the rebalancing of the portfolio to rectify any passive breach of the investment limits.
- viii. Such requirement of rebalancing in the event of a passive breach of investment limits shall be suitably disclosed in the consent form mentioned at para 2(B)(i) above and any waiver from the same shall also be obtained in the same document.
- ix. In accordance with Regulation 27 (1) of the PMS Regulations, Portfolio Managers shall maintain records and documents pertaining to:
  - a) Prior positive consent or dissent, as the case may be.
  - b) Instances of the passive breach of investment limits, if any.
  - c) Steps taken, if any to rectify the passive breach of investments limits.
  - d) Waiver obtained from the client regarding rebalancing in the event of a passive breach of investment limits.

**C. Minimum credit rating of securities for investments by Portfolio Managers**

Regulation 24 (3C) of PMS Regulations provides that Portfolio Managers shall not be allowed to invest clients' funds in unrated securities of their related parties or their associates. Further, Regulation 24 (3E) of PMS Regulations provides that the Portfolio Manager shall ensure investment of its clients' funds on the basis of the credit rating of securities as may be specified by the Board. Accordingly, with respect to investments in debt and hybrid securities, the Portfolio Managers shall ensure compliance with the following:

- i. Portfolio Managers offering discretionary portfolio management services shall not make any investment in below investment grade securities.
- ii. Portfolio Managers offering non-discretionary portfolio management services shall not make any investment in below investment grade listed securities. However, Portfolio Manager may invest up to 10% of the assets under management of such clients in unlisted unrated securities of issuers other than associates/related parties of Portfolio Manager. The said investment in unlisted unrated debt and hybrid securities shall be within the maximum



specified limit of 25% for investment in unlisted securities under Regulation 24(4) of the PMS Regulations.

**D. Disclosure of details of investments by Portfolio Managers**

i. Periodic Report to the clients

a) Portfolio Managers shall disclose the following in the periodical report required to be furnished to clients in terms of para 12 of the SEBI Circular SEBI/HO/IMD/DF1/CIR/P/2020/26 dated February 13, 2020:

- i. Details of investment of client’s funds in the securities of associates/related parties of the Portfolio Manager.
- ii. Details of instances of passive breach of investment limits, if any, and steps taken to rectify the same.
- iii. Details of credit ratings of investments in debt and hybrid securities.

b) Accordingly, the format for client reporting as provided in Annexure B of aforesaid Circular dated February 13, 2020 has been revised to include the following tables as a separate head under clause E.

Investments in the securities of associates/related parties of Portfolio Manager:

i. Transaction wise

Sr. No.	Issuer name	Type of security	ISIN	Transaction wise Details				
				Transaction date	Buy/sell	Quantity	Gross transaction value (INR in crores)	Net transaction value (INR in crores)

ii. Security wise

Sr. No.	Issuer name	Type of security	ISIN	Security wise Details			
				Investment amount (cost of investment) as on last day of the previous quarter (INR in crores)	Value of investments as on last day of the previous quarter (INR in crores)	percentage of client’s AUM as on last day of the previous quarter (INR in crores)	percentage of PM’s AUM as on last day of the previous quarter (INR in crores)



iii. Details regarding passive breach of investment limits:

Sr. No.	Details of passive breach	Date of passive breach	Details of steps taken, if any, to rectify the passive breach of limits	Date of rectification	Whether rectified within 90 days

iv. Details of credit ratings of investments in debt and hybrid securities.

## II. Disclosure Document

Regulations 22 (4) (da) & (db) of PMS Regulations provides that the Portfolio Manager shall disclose in the Disclosure Document the details of its diversification policy and the details of investment of clients' funds by the Portfolio Manager in the securities of its related parties or associates. Accordingly, the Portfolio Manager shall ensure compliance with the following:

- i. Disclosure of the details of investment of clients' funds in the securities of associate/related parties in the Disclosure Document under the head "*Details of investments in the securities of related parties of the Portfolio Manager*", in the following format:

Investments in the securities of associates/related parties of Portfolio Manager:

Sr. No.	Investment Approach, if any	Name of the associate/related party	Investment amount (cost of investment) as on last day of the previous calendar quarter (INR in crores)	Value of investment as on last day of the previous calendar quarter (INR in crores)	percentage of total AUM as on last day of the previous calendar quarter

- ii. Portfolio Managers shall ensure that any material changes in the above information is updated in the Disclosure Document and uploaded on their respective websites within 7 days.

## 3. **Applicability**

- a) The requirements as specified at para 2 above and in Regulations 22 (1A), 22(4) (da) & (db), 24 (3A) to 3(E) of PMS Regulations shall not be applicable for advisory portfolio management services, co-investment portfolio management services and for client categories who in turn manage funds under government mandates and/or are governed under specific Acts of State and/or Parliament.



- b) Notwithstanding the above, for advisory portfolio management services, Portfolio Managers shall make suitable disclosure to the client regarding conflict of interest with respect to investments in the securities of the associates/related parties, while giving advice. The term “*associate*” for this purpose shall have the same meaning as defined under explanation to Regulation 24 (3C) of PMS Regulations. Further, Portfolio Managers shall disclose the credit rating of all securities, while giving advice.
- c) The circular shall come into effect from September 20, 2022 and the requirements at para 2(D)(II) above shall come into effect from the quarter ending September 2022.
4. 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 Regulation 43 of the SEBI (Portfolio Managers) Regulations, 2020, to protect the interests of the investors in securities market and to promote the development of, and to regulate the securities market.
5. The circular is available on SEBI website at [www.sebi.gov.in](http://www.sebi.gov.in) under the categories “Info for – Portfolio Managers” and “Legal framework - Circulars”.

Yours faithfully,  
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**Annexure: A**

**Format of obtaining the consent from the client**

1. This document is for obtaining the consent/dissent for investment by Portfolio Manager in its associates/related parties.
2. As per SEBI (Portfolio Managers) Regulations, 2020, the limits applicable for investment in the securities of associates/related parties of Portfolio Manager are as under:

Security	Limit for investment in single associate/related party (as percentage of client's AUM)	Limit for investment across multiple associates/related parties (as percentage of client's AUM)
Equity	15%	25%
Debt and hybrid securities	15%	25%
Equity + Debt + Hybrid securities	30%	

3. The client may choose not to invest in the securities of associates/related parties of the Portfolio Manager. Further, the client may choose a limit lower than the limits prescribed at para 2 above.
4. The risks and conflict of interest associated with investment by the Portfolio Manager in the securities of its associates/related parties are as under:

**Risks:**

**Conflict of Interest:**

5. In case the client wants the Portfolio Manager to invest in the securities issued by associated/related parties of Portfolio Manager and provides the consent for the same, the investments shall be subject to the following limits:

Security	Limit for investment in single associate/related party (as percentage of client's AUM)	Limit for investment across multiple associates/related parties (as percentage of client's AUM)
Equity		
Debt and hybrid securities		
Equity + Debt + Hybrid securities		

6. In case of passive breach of investment limits (i.e., occurrence of instances not arising out of omission and/or commission of Portfolio Manager) as decided at para 5 above, a rebalancing of the portfolio is required to be completed by Portfolio Managers within a period of 90 days from the date of such breach. However, the client may give an informed, prior positive



consent to the Portfolio Manager for a waiver from the requirement of rebalancing of the portfolio to rectify the passive breach of investment limits. The client may choose not to provide any waiver.

7. Please indicate consent or dissent as under:

**Limits on investment**

- Consent:** Portfolio Manager **can** invest in the securities of its associates/related parties within the limits agreed upon at para 5 above.
- Dissent:** Portfolio Manager **cannot** invest in the securities of its associates/related parties.

**Waiver from rebalancing of portfolio on passive breach of investment limits**

- Consent:** Portfolio Manager **need not** rebalance the portfolio on passive breach of investment limits.
- Dissent:** Portfolio Manager **should** rebalance the portfolio on passive breach of investment limits.

**Signature of the client**