

‘Proposed Changes for Ease of Compliance’

Sr. No.	Particulars in the existing PM Regulations	Proposed changes in the consultation paper
1.	Definition of “Related Party” in Regulation 2(pa).	To remove inconsistency, the definition of related party in Regulation 2(pa)(v) is being aligned with the definition specified under with Companies Act, 2013.
2.	Regulation 7(2)(d)(i) on educational qualification for Principal Officer.	To promote ease of doing business, it is proposed to rationalise the minimum educational qualification prescribed for principal officer to graduation degree in any discipline from a recognised university in India or foreign university or a professional qualification in finance such as CFA, Chartered Accountant etc.
3.	Regulation 9 on Net worth requirement.	To bring clarity, net worth is redefined to include securities premium reserve and exclude any loans and advances given by Portfolio Manager including to their related parties or associates. Further, with a view to promote clarity on deployment of net worth, it is proposed that at least ten percent of the net worth must be deployed in liquid assets which are unencumbered and shall include cash, bank deposits with Scheduled commercial Banks, money market instruments, Government securities, treasury bills, Repo on Government

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		securities and any other instruments as specified by the Board. Existing portfolio manager would be required to comply within 12 months from the commencement of the regulation.
4.	Regulation 22(3) requires portfolio manager to provide disclosure document to client in the format specified.	Towards a paperless initiative, the regulation is proposed to be revised to enable portfolio managers to share disclosure document with clients in digital format.
5.	Regulation 22(7) provides timeline of 7 working days for filing the disclosure document with material change.	With a view to ensure ease of compliance for portfolio managers, the existing timeline of 7 working days is proposed to be revised to 10 calendar days. This would enable portfolio managers to file the disclosure document in a timely manner.
6.	Regulation 22(9) provides a timeline of 7 working days for filing information on change in identity of principal officer to the Board and clients.	With a view to ensure ease of compliance for portfolio managers, the existing timeline of 7 working days has been revised to 10 calendar days. This would enable Portfolio managers to file the requisite information in a timely manner.
7.	Regulation 24(15) provides that a portfolio manager shall not hold the securities belonging to the portfolio	The PM Regulations restricts portfolio managers from holding client securities in their own name. However, to promote efficient cash management, para 2.2.3 of

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	account, in its own name on behalf of its clients either by virtue of contract with clients or otherwise.	the Master Circular simultaneously allows for the short-term deployment of funds into liquid mutual funds and is held in its name. In order to facilitate the same, an anchor clause has been added to regulation for clarity.
8.	Para 6.1.3.3 of Master circular for Portfolio Manager provides for a upper cap on operating expenses that can be charged by the portfolio manager for each client on an annual basis	With a view to facilitate greater clarity and transparency, it is clarified that 0.50% per annum cap limit on operating expenses relative to the client's average daily AUM shall be calculated exclusive of all statutory levies.
9.	Para 5.2.2.4 of Master Circular for Portfolio Manager provides a timeline of 30 calendar days for submission of Corporate Governance Report to SEBI.	With the objective of easing compliance for market participants, it is proposed to align the timeline for submitting the corporate governance report to SEBI with the timeline for firm-level reporting and compliance certificate submissions to 60 calendar days.
10.	Paragraph 2.7.2 of Master Circular for portfolio managers provides various requirements for investments including constitution of dealing team for order placement and execution of orders in accordance with	In order to ensure investor protection, it is proposed to clarify that a portfolio manager must ensure maintaining a dedicated and segregated dealing room for its portfolio management activity, ensuring that dealing personnel operate independently from the entity's other activities. A proposal for carve-out for

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	regulation.	smaller portfolio managers is provided at para 6.1.
11.	Clarification on the geographical scope of operations of portfolio manager.	To provide clarity and further strengthen the regulatory oversight and supervision, it is proposed to explicitly define the geographical operational boundaries for portfolio managers. Accordingly, it is proposed that portfolio managers shall not carry out their investment management operations or execution of transactions relating to portfolio management services, outside the territory of India, except for execution of trades for investment in overseas securities.
12.	Minimum requirement for commencement of business activity.	In order to safeguard investor interest, it is proposed to clarify that registered portfolio manager shall establish its business activities within three years from the date of registration. For this purpose, establishment of activity means a portfolio manager shall be required to have a minimum of 10 clients or total AUM of INR 5 crores within the period of three years to carry on its operation as a portfolio manager. A transitional clause will be added for existing portfolio

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		managers to comply with the condition.
13.	Formats of Reporting to SEBI and Clients.	Formats of Reporting are proposed to be simplified and aligned to remove duplication in reporting.
14.	Clarification on eligibility criteria for Compliance officer.	Considering that compliance officer is responsible for monitoring compliance with the provision of the SEBI Act, PM Regulations and circulars issued thereunder, it is desirable that a clarity on certain qualification to be obtained by compliance officer may be specified. Accordingly, a person shall obtain certification from National Institute of Securities Market (NISM) by passing the NISM Series-III-C: Securities Intermediaries Compliance (Fund) Certification Examination to qualified to be appointed as compliance officer of a portfolio manager.
15.	Definition of non-discretionary portfolio manager.	Definition of non-discretionary portfolio manager has been specified in the regulation for clarity.
16.	Surrender of certificate of registration.	To ensure parity with various other intermediaries, a provision for surrender of certificate of registration is added.

**‘Proposed Changes to bring about Simplification
and Regulatory clarity’**

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1.	Application for grant of registration (Regulation 3,4,5,6,10,12,13,15)	Provisions relating to application for registration, inter-alia including furnishing of information, rejection, refusal of application etc., is consolidated under one head.
2.	Eligibility criteria for registration of an applicant as portfolio manager (Regulation 7, 8 and 9)	The requirements have been tabulated for easy reference.
3.	Procedure to be followed to act as Eligible Fund Mangers (Regulation 17 and 18)	
4.	Requirements for Co-investment portfolio managers.	Various provisions and exemptions relating to Co-investment portfolio managers, mentioned across different sub-regulations, have been brought under one separate chapter for greater clarity and ease of reference.
5.	General obligations and responsibilities of portfolio managers (Chapter IV).	General obligations and responsibilities of portfolio managers have been reorganised under common thematic heading with sub-heads for greater clarity. Further,

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		anchor clauses for valuation, advertisement code, performance benchmarking and requirement of written down policy for management of clients funds and securities have been added for clarity.
6.	Regulation 22(6) provides for availability of copy of disclosure document on website of portfolio manager at all times.	Considering that disclosure document is dynamic and subject to change, it has been explicitly clarified that latest disclosure document shall be available on website.
7.	Format for application for grant of certificate of registration (Form A), certificate of Registration (Form B), declaration for disclosure document (Form C) [Schedule I].	As a part of ease of doing business, format for disclosure document was shifted to Master Circular. In view of ease of reference, Form A, B and Form C of Schedule I and Schedule VI will be placed in the Master Circular for Portfolio Managers.
8.	Declaration for Eligible Fund Managers (Schedule VI).	

**‘Modification in Grand Fathering Provision/ Deletion of Redundant Provisions/
Clauses’**

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1.	Proviso to Regulation 7(2) pertaining to specific timeline for compliance with requirements of education and experience of Principal Officers and appointment and qualification of additional employee.	The proviso to regulation was transitory in nature and hence deleted.
2.	Proviso to Regulation 9 prescribes timeline for compliance with maintaining net worth requirement.	
3.	Regulation 7(2)(f) &(h) specifies consideration for registration of applicant relating to litigation and disciplinary action.	The 'fit and proper' standards set out in the SEBI (Intermediaries) Regulations, 2008, provide a comprehensive and definitive framework governing all market intermediaries. Consequently, the additional clause has been deleted to ensure regulatory clarity.
4.	Regulation 14 pertains to refusal of application of certification	Regulation 12 prescribes that certificate of registration shall be valid unless it is suspended or cancelled by the Board.

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		In order to keep the registration in force, portfolio manager would be required to pay requisite renewal fees (Schedule II). Considering the above, it is observed that renewal of certificate would be done upon payment of fees and no fresh registration is required for the same. Thus, the extant Regulation 14 is redundant and hence deleted.
5.	Regulation 22(2) prescribes content of agreement between portfolio manager and the client	Specifics of content of agreement are already detailed in the Schedule IV PM Regulations. In view of duplication, the details provided in regulation is deleted.
6.	Proviso to regulation 23(2) relating to grandfathering minimum investment amount INR 25 lakhs from clients.	Following the increased limit to minimum investment threshold to INR 50 lakhs in PM Regulations, existing portfolios of clients with minimum investment of INR 25 lakhs were initially grandfathered to support a transition. Given the subsequent growth and maturity of sophisticated investors within the PMS ecosystem, this grandfathering provision is being modified. To ensure that all investments operate on an equitable and level playing field, it is proposed that all clients of portfolio managers

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		shall comply with minimum investment limit of INR 50 lakhs (with the exception of clients of MF-PMS) within thirty six months from the commencement of new Regulations.
7.	Proviso to regulation 24(3E) relating to grandfathering from prudential limit, investment limit in credit rating etc.	In view of investor interest, the existing grandfathering clause is being modified. Accordingly, all portfolio managers shall ensure compliance with the regulation within twelve months from commencement of regulation.