To, 30th August, 2019

General Manager
Investment Management Department
Securities and Exchange Board of India
SEBI Bhavan, Plot No. C4-A, G-Block,
Bandra Kurla Complex, Bandra (East),
Mumbai - 400 051

Via email to: pmsreview@sebi.gov.in

Sub: Consultation Paper on SEBI (Portfolio Managers) Regulations, 1993

At the outset, we, at Indian Association of Investment Professionals (IAIP), a member society of the CFA Institute appreciate the opportunity to submit our response to the **CONSULTATION PAPER ON SEBI (PORTFOLIO MANAGERS) REGULATIONS, 1993.**

IAIP is an association of over 2000 local investment professionals who are CFA charter holders and about 4000+ professionals who have cleared exams, eligible and awaiting charter. The Association consists of valuation professionals, portfolio managers, security analysts, investment advisors, and other financial professionals, that; promote ethical and professional standards within the investment industry, facilitate the exchange of information and opinions among people within the local investment community and beyond, and work to further the public's understanding of the CFA designation and investment industry.

CFA Institute is a global non-profit association of investment professionals with over 155,000 members in over 152 countries. In India, the community of CFA charter holders is represented by the Indian Association of Investment Professionals.

Through our global research and outreach efforts, CFA Societies around the world endeavour to provide resources for policy makers, financial services professionals and their customers in order to align their interests. Our members engage with regulators in all major markets.

With regards to the above mentioned consultative paper, we have proposed a few suggestions.

We would be happy to hear and discuss the merits / demerits of suggestions proposed by other practitioners and request to be included in the deliberation process.

Our responses to the various points are mentioned below:

A. Details of our Organisation:

1. **Name:** Indian Association of Investment Professionals (CFA Society India)
2. **Contact number:** +91 98196 30042
3. **Email address:** advocacy@iaipirc.org
4. **Postal address:** 702, 7th Floor, A Wing, One BKC Tower, Bandra Kurla Complex, Bandra (E), Mumbai - 400 051

B. Key Contributors:

1. Mr. Biharilal Deora, FCA, CFA
2. Mr. Gokul Maheshwari, CFA
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4. Mr. Piyush Ranjan Singh, CFA, CIPM
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9. Mr. Parijat Garg, CFA
10. Mr. Puneet Singhania, CFA
11. Mr. Sanjeev Patni, CFA
12. Mr. Soham Das, CFA

C. Suggestions / Comments on The Working Group Report:

Name of Organisation: Indian Association of Investment Professionals (CFA Society India)

Sr. No.	Paragraph of the Working Group Report	Comments/Suggestions	Rationale
1.	ISSUE 1: ENHANCEMENT OF QUALIFYING CRITERIA FOR EMPLOYEES OF PORTFOLIO MANAGER 9(1): Proposal with regard to enhancing qualifications of Principal Officer	SEBI should incorporate passing of CFA exam as an alternative to passing the NISM exam.	Incorporation of NISM exam is welcome as a minimum criterion and will go a long way in standardizing the qualifications. However, portfolio management in practice, demands a multi-disciplinary approach. SEBI may incorporate such an approach in the NISM pedagogy. We request SEBI to consider recognizing the CFA Charter as a valid qualification. The reasons are as follows: 1. The current regulations recognize the CFA Charter as a valid qualification for a principle officer. 2. Earning the CFA Charter involves a rigorous 300 hours of study for each of the three levels of the program. In addition, charter holders need to have a minimum of four years of professional investment decision making experience. 3. The CFA program offers investment practitioner-oriented knowledge based on best practices and a constantly evolving global market place. The CFA program body of knowledge is distinctly unique compared to programs offered by universities/ academic knowledge bases around the world.

<table>
<tr><td></td><td></td><td></td><td>As per a 2013 study commissioned by CFA Institute and conducted by UK National Academic Recognition and Information Centre ("the NARIC"), CFA curriculum and examination were benchmarked against the finance education levels in different geographies and were found to compare favourably in rigor. For benchmarking comparison, refer Annexure II. Details here[1]"

4. CFA continuing professional development offerings are among the longest running, highly regarded, educational programs around the world.
5. The CFA Charter has been recognized as a valid qualification by over 70 different regulatory exemptions around the world. Details here[2].</td></tr>
<tr><td>2.</td><td>ISSUE 1: ENHANCEMENT OF QUALIFYING CRITERIA FOR EMPLOYEES OF PORTFOLIO MANAGER

9(1): Proposal with regard to enhancing qualifications of Principal Officer</td><td>SEBI should consider adding the practice and profession of "Research Analyst" to the list of allied professions and any experience thus gained as relevant to the practice of Portfolio Management.</td><td>Portfolio Management incorporates security analysis and research as one of the cornerstone skills in its operations.

With such an amendment, a skilled research analyst can seamlessly transition to the position of Portfolio Manager.

This will have the effect of building a sophisticated industry in India.</td></tr>
<tr><td>3.</td><td>ISSUE 2: ENHANCEMENT OF CAPITAL ADEQUACY REQUIREMENT

1 (3): Proposal with regard to increase in Net Worth of Portfolio Managers.</td><td>It is our suggestion that:

a. Status quo be maintained, or
b. AUM linked net-worth criteria may be prescribed by SEBI.</td><td>Portfolio Management activity does not require capital adequacy norms as may be applicable to fund-based activity nor does it require a larger infrastructure setup. The recommendation, if implemented, will be an undue burden on the existing portfolio managers and entry barrier for aspirants.

Further, the inflation indexing of the original net worth in 2009, amounts to a total that is substantially less than, now proposed amount (see below):

<table><tr><th>Year</th><th>WPI Inflation</th><th>Rs. 2 Cr in 2008 is equal to Rs Cr</th></tr><tr><td>2009</td><td>3.8</td><td>2.1</td></tr></table></td></tr>
</table>

[1] https://www.cfainstitute.org/en/advocacy/benchmarking
[2] https://www.cfainstitute.org/en/membership/benefits/waivers#f:_6896E616-1594-4290-A66D-E1D9A40E3D5F=[Licensing%20Exam%20Waiver]

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<table>
<tr><td>2010</td><td>9.6</td><td>2.3</td></tr>
<tr><td>2011</td><td>8.9</td><td>2.5</td></tr>
<tr><td>2012</td><td>6.9</td><td>2.6</td></tr>
<tr><td>2013</td><td>5.2</td><td>2.8</td></tr>
<tr><td>2014</td><td>1.3</td><td>2.8</td></tr>
<tr><td>2015</td><td>-3.7</td><td>2.7</td></tr>
<tr><td>2016</td><td>1.7</td><td>2.8</td></tr>
<tr><td>2017</td><td>2.9</td><td>2.8</td></tr>
<tr><td>2018</td><td>4.4</td><td>3.0</td></tr>
</table>
Most of the developed countries have minimum capital requirements of even lesser than the current minimum net worth requirement of Rs. 2 crores prescribed under the SEBI (Portfolio Manager) Regulations, 1993.
<table>
<tr><th>Country</th><th>Minimum Net Worth</th><th>Min. Investment Limit</th><th>INR equiv</th></tr>
<tr><td>Singapore</td><td>SGD500,000</td><td>NA</td><td>2.58cr</td></tr>
<tr><td>UK/EU</td><td>EUR125,000</td><td>NA</td><td>0.99 cr</td></tr>
<tr><td>USA – For HFs</td><td>NIL</td><td>NA</td><td>NIL</td></tr>
<tr><td>USA – Investment Management Companies</td><td>USD250,000</td><td>NA</td><td>1.8cr</td></tr>
</table>
Operational risk of portfolio management increases as assets under management (AUM) grow and hence minimum net-worth criteria may be linked to AUM growth.
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<td>4.</td>
<td>ISSUE 2: ENHANCEMENT OF CAPITAL ADEQUACY REQUIREMENT

1(2): Proposal with regard to increase in Net Worth of Portfolio Managers.</td>
<td>It is our suggestion that, SEBI should order portfolio managers to reduce operational risks by:

a. Leveraging Custodians for all PMS irrespective of AUM size
b. Segregation of Bank Accounts for Each Client</td>
<td>▪ Increasing net-worth and improving the capital adequacy of a portfolio management firm, will not guarantee improvement in operational risk management.

Instead, leveraging existing financial market infrastructure will improve the overall service, transparency and reduce risk of catastrophic failure

▪ PMs continue to keep client’s monies in a common bank account for their own ease. This practice should be discouraged. Client’s funds should be kept in their own bank accounts. Client securities are already required to place in segregated depository accounts.</td>
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CIN: U91990MH2005GAP152320

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<td>5.</td>
<td>ISSUE 3: PRODUCT SUITABILITY IN PMS

1(6): Proposal with regard to increase in investment limits</td>
<td>It is our suggestion that:

a. Status quo be maintained, or

b. minimum investment amount, for a portfolio manager offering mutual funds as portfolio universe should be allowed at Rs. 25 lacs, or

c. Introduce the concept of “Accredited Investor’’</td>
<td>a) Status quo be maintained

▪ In developed markets, there is no minimum investment norm prescribed by the Regulators

<table>
<tr><th>Country</th><th>Min. Investment Limit</th></tr>
<tr><td>Singapore</td><td>NA</td></tr>
<tr><td>UK/EU</td><td>NA</td></tr>
<tr><td>USA – For Hedge Funds</td><td>NA</td></tr>
<tr><td>USA – Investment Management Companies</td><td>NA</td></tr>
</table>

▪ The goal behind raising the minimum investable amount is to prevent less sophisticated investors to participate in PMS schemes, as per the Working Group Report. However, the problem of mis-selling will not be alleviated with an increase in ticket size. Rather this can only be improved by:
o Transparent Disclosures
o Greater Professionalism
o Higher Accountability of the Portfolio Manager

b) Rationale for Minimum investment amount for mutual funds as portfolio universe should be allowed at Rs. 25 lacs
Strategies comprising of Mutual Funds (including ETFs) as portfolio universe (similar to fund of funds structure launched under Mutual funds), compared to pure equity portfolio, are less complicated, more liquid and meant for investors with moderate risk-taking capacity.

Keeping the minimum investment amount as it is, for such a managers will allow a larger set of investors to avail professional services.

c) Introducing concept of “Accredited Investor”
As an alternate to prescribing minimum investment amount, SEBI may consider introducing the concept of “Accredited Investor” who will be eligible to avail portfolio management services.

In the United States, to be considered an accredited investor, one must have a net worth of at least $1,000,000, excluding the value of one's primary residence, or have income at least</td>
</tr>
</table>

			$200,000 each year for the last two years (or $300,000 combined income if married) and have the expectation to make the same amount this year[3].
6.	ISSUE 8: FEES AND EXPENSES 2(4): Proposals with regard to fees and charges	We suggest that: a. Exit Loads be scrapped altogether for all PMS schemes. b. SEBI should cap the maximum permissible limit of Trail Fees that can be charged from the client.	▪ PMS, as an industry, suffers from rampant mis-selling. As a result, a client when dissatisfied with the overall performance/service of a particular scheme should be allowed to exit without incurring any extra cost. ▪ We further believe that PMS distributor's income should be brought in line with the distributor's income from other products, most notably- *mutual funds*. This will ensure that client investing in PMS is not at a disadvantage in matters of customer protection, vis a vis when investing in mutual funds.
7.	ISSUE 9: EASE OF ON-BOARDING CLIENTS 1(1): Proposals to ease the client on-boarding process	We recommend that SEBI may work out a joint process with other regulators so that there is a single window where an FPI can get all their registration done.	Empirical evidence points to inordinate delay (2-6 months) for on-boarding of a client. This occurs since, on-boarding of clients involves three regulators - RBI (for bank account), SEBI (For FPI registration) and IT Department (for issuing PAN).
8.	ISSUE 9: EASE OF ON-BOARDING CLIENTS 1(1): Proposals to ease the client on-boarding process	We suggest that SEBI should allow client on-boarding to take place through: a. Online platforms like DocuSign b. Synergies via eKYC and prior KYC done for MF investments should be harnessed	Currently the PMS clients are being asked to sign various documents of Portfolio Manager, DP account opening and Bank account opening, resulting in unnecessary paperwork. Promoting online platforms is an effective way to maintain audit trail.
9.	ISSUE 10: MISCELLANEOUS 2(4): Proposal with regard to investible instruments in PMS	It is our suggestion that: 1. All future investments in Mutual Funds by PMS should be in Direct Schemes, instead of the current/existing investments. 2. The Draft Regulation	▪ Any switch from Regular Plans to Direct Plans will invoke a tax event for the client, since the manager will have to liquidate existing mutual fund holdings and switch to the new plan. We recommend that, all future investments should be made in Direct Plans and current investments should be exempted from this guideline. ▪ Since the clients of PMS are expected to be high net worth individuals, sophisticated and possess

[3] https://www.investor.gov/additional-resources/news-alerts/alerts-bulletins/updated-investor-bulletin-accredited-investors

		should expand the universe of investable assets from listed securities **to all securities.**	financial awareness, SEBI can allow the portfolio managers to allocate capital in any asset class of their choice, **provided:** o The Portfolio Manager discloses adequately, completely the risk associated with a particular investment product. o The Portfolio Manager assesses suitability of the product by taking into account the history of client holdings.
10.	ISSUE 10: MISCELLANEOUS 3(2). Proposal with regard to outsourcing of core activities by Portfolio Managers	It is our suggestion that: Portfolio Managers be allowed to avail research services and advice of another portfolio manager, investment advisor or another registered intermediary.	A robust stock selection process considers all conflicting views to assess an opportunity. Collaboration needs to be very much encouraged. If not the core fund management activity, at least data / advice / research reports should be allowed to be outsourced. However, Portfolio Manager should be clearly and fully held responsible for Portfolios under his active management. We also believe that collaborative forces will help bring down asset management cost in few years which we feel is the necessity of the day.
11.	ISSUE 5: PERFORMANCE REPORTING BY PORTFOLIO MANAGERS 3(1): Proposals for improvement of Reporting	Performance reporting Standards on the lines of internationally accepted GIPS should be applied across strategies offered The color codes / risk meter symbols currently used for MF could also apply for PMS funds, as most PMS funds are typically in Med / High risk categories.	Following an internationally accepted reporting standard is beneficial since: 1. Such a standard receives scrutiny by regulators across geographies, which ensures that combined knowledge base of all security market regulators act in concert to prevent mis-reporting. This implies a reduced workload for SEBI. 2. A standardized reporting system ensures that our PMS ecosystem is built along the global best practices and globally competitive. 3. Indian capital markets are fast integrating with global capital markets and to have separate standards will have poor signaling to investors regarding Indian benchmarking standards.
12.	ISSUE 4: ADOPTION OF NOMENCLATURE “INVESTMENT APPROACH”	1. The Portfolio Managers should classify all portfolios in accordance with the Investment Approaches marketed by them. The Investment Approaches should be defined in such a way that all client portfolios are allocated to one or	Clearly articulated and detailed policies and procedures can be invaluable tool for a Portfolio Manager to efficiently comply with the regulatory requirements and helps firms improving their internal controls and governance. Adhering to policies enacted ex-ante would also avoid managers “cherry-pick” the best performing portfolios for the purpose of creating the groups corresponding to an Investment Approach.

		another investment approach. 2. Portfolio Managers should document their policies and procedures adopted for creating Investment Approaches and the policies should be applied consistently. 3. Portfolios must not be switched from one Investment Approach to another unless documented changes to the portfolio's investment mandate, objective or strategy or the redefinition of the Investment Approach makes it appropriate. In case of reclassification of portfolio to another Investment Approach, the historical performance of a portfolio must remain with the original Investment Approach. 4. New portfolios must be included on the respective Investment Approaches on a timely and consistent manner after each portfolio comes under the management.	
13.	ISSUE 5: PERFORMANCE REPORTING BY PORTFOLIO MANAGERS 3. Proposals for improvement of Reporting (1) Standardization of performance calculation c) Further, all	1. Taxes should not be deducted while reporting returns to potential clients in the marketing materials. Similarly, administrative expenses (like custody charges, trade settlement charges, etc,) should not be deducted while reporting returns to potential clients, unless the portfolio manager controls these administrative expenses. The returns reported	Prescribed methodology is incorrect and not in line global best practices for investment performance reporting: Taxes and Administrative Expenses are generally not in the control of the portfolio manager. Hence, a potential client should evaluate a portfolio manager based on the factors that are under the control of the portfolio manager like managing the portfolio, portfolio turnover (and hence the transaction cost) and the management fee charged by the portfolio manager. Returns to individual clients should be reported net of all the expenses and taxes to which the client is subject to.

	performance has be reported net of all fees, all expenses and taxes.	should be net of trading expenses (brokerage, STT etc.) and management fees only. 2. Taxes can be reported while reporting returns to existing clients for their respective portfolios.	
14.	ISSUE 5: PERFORMANCE REPORTING BY PORTFOLIO MANAGERS 3. Proposals for improvement of Reporting (2) Performance reporting template & frequency of reporting a) It is recommended that frequency of reporting to clients may be improved to 3 months compared to the present requirement of half yearly reporting in the manner given in Annexure A1.	Standard Deviation for periods less than 3 years may not be reported	Standard Deviation is a measure of dispersion around the mean value of the return and any conclusion based on data points less than 3 years period may not make a good sense, Global practice is to report Standard Deviation for time period for last 36 months. In fact, AMFI has also recommended to compute risk statistics in the fund factsheets based on last 36 months returns data (AMFI Circular 135/BP/14/07-08 dated Oct 25, 2007 – Standardization of Factsheets and Newsletters Issued by Mutual Funds).
15.	ISSUE 5: PERFORMANCE REPORTING BY PORTFOLIO MANAGERS 3. Proposals for improvement of Reporting (2) Performance	1. Individual performance report should be prepared for various Investment Approaches offered by a Portfolio Manager. 2. The attached sample report (Annexure I) can be referred to for an Investment Approach	1. Reporting only 1 month and 1 Year returns alone may not help potential clients assess the long terms performance of a portfolio manager. 2. Reporting benchmark return is vital information which is not contained in proposed Annexure A2. 3. There are many other informant statistics which a portfolio manager should provide a potential client to understand the performance better.

	reporting template & frequency of reporting b) The format of monthly reporting to SEBI is recommended to be revised as given at Annexure A2. The revised format shall enable the portfolio manager to segregate all the different "portfolios"/ approaches whilst reporting to SEBI.	Performance Report / Sample Performance Presentation. Footnotes are provided for each of the column headings in the sample report.	
16.	ISSUE 7: REPORTING AND DISCLOSURE REQUIREMENTS OF PORTFOLIO MANAGERS 3. Proposals with regard to changes in Monthly reporting (2) The Working Group has recommended that the Circular may be amended to prescribe the standards for performance reporting as follows: (e) Period of computation should be 1m /	Format of Annexure A2 to be changed in accordance with the requirements mentioned for all periods	Annexure A2 in the revised regulations is not in line with the requirements mentioned in the provisions to show performance for periods 1m / 3m / 6m/ 1yr/ 3yr / 5yr/ Since inception

	3m / 6m/ 1yr/ 3yr / 5yr/ Since inception		
17.	ISSUE 7: REPORTING AND DISCLOSURE REQUIREMENTS OF PORTFOLIO MANAGERS 3. Proposals with regard to changes in Monthly reporting (2) The Working Group has recommended that the Circular may be amended to prescribe the standards for performance reporting as follows: (b) Consolidated performance to be computed and reported	In the monthly reports to SEBI, returns to be shown only at the investment approach level. Consolidated returns for all clients with different investment objectives, mandates and risk tolerance not to be shown.	The consolidated returns shown are misleading and not comparable. Returns should only be shown for each investment approach consolidated for all clients invested under that approach (computed on weighted average of Client AUM for all Clients under a Portfolio)
18.	ISSUE 7: REPORTING AND DISCLOSURE REQUIREMENTS OF PORTFOLIO MANAGERS 3. Proposals with regard to changes in Monthly reporting (2) (d) Performance to	*“Performance to be computed on weighted average of Client AUM for all Clients under a Portfolio”* should be replaced with *“Performance to be computed on beginning of the day asset weighted average of Client AUM for all clients under an Investment Approach”*.	In the absence of any guidance, portfolio managers can choose any method for computing the weighted return, leading to inconsistency and lack of comparability of data of various managers.

	be computed on weighted average of Client AUM for all clients under a Portfolio		

D. Suggestions / Comments on the draft SEBI (Portfolio Managers) Regulations, 2019:

Name of Organisation: Indian Association of Investment Professionals (CFA Society India)

Sr. No.	**Regulation No. of the draft PMS Regulations**	**Comments/Suggestions**	**Rationale**
1.	**Regulation 22 (2) (b) (iv):** *Provided that the performance of a discretionary portfolio manager shall be calculated using **<u>weighted average method</u>** taking each individual category of investments for the **<u>immediately preceding three years</u>** and in such cases performance indicators shall also be disclosed;* *Provided that the portfolio manager **<u>may be allowed</u>** to disclose performance segregated on the basis of investment approach.*	**The Regulation relating to performance of a Portfolio Manager needs more detail and should be re-drafted as under:** The Portfolio Manager will classify all portfolios in accordance with the investment approaches marketed by them. The investment approaches should be defined in such a way that all client portfolios are allocated to one or another investment approach. Investment performance for each investment approach should be disclosed separately. The following should be adhered to while disclosing investment performance: 1. The time weighted rate of return should be used to calculate the investment returns of each portfolio. Cash flows into or out of the portfolio should not influence the return computations. The returns for an investment approach should be the weighted average returns of all the portfolios in that investment approach. The beginning of the period portfolio value should be the weight used for computing the return. Monthly returns of each portfolio should be calculated and thereafter the aggregated return of the investment approach should be computed. The returns of one month should be linked to the returns of the subsequent month geometrically; 2. The returns for each financial year should be presented for at least the last ten financial years or since inception if the firm has not been in existence for ten years; 3. The following should be disclosed in the report:	We are recommending the suggestions on the left to ensure consistency in reporting, inclusion of performance of all clients, gross and net returns earned by clients, etc Further, these disclosures should be made consistently in the SEBI filing, Disclosure documents, on marketing materials as well as on the website of the Portfolio Manager References are made to the provision of the extant regulations and needs to be corrected. References to be given correctly to the provisions of the new Regulations and changes reflected accordingly.

		- Returns should be computed on the basis of fair valuation of the assets in each portfolio; - Gross returns of each investment approach after all transaction related expenses; - Net returns of each investment approach after Portfolio Manager management fees (including profit share fees); - Total Returns of an appropriate benchmark - Returns less than one year should not be annualized - Standard deviation of the returns of the investment approach and the benchmark over the last three years based on monthly returns; - The internal dispersion of the returns of each portfolio within that investment approach for each financial year; - Number of portfolios in each investment approach at the end of the year; - Total assets of the investment approach and total assets managed by the Investment Manager 4. The returns of past clients should not be removed from the investment performance of the previous years, so that there is no Survivorship Bias in the returns reported. 5. The investment performance of new clients should be included in an Investment Approach following a timely inclusion approach, say, at the beginning of the first full month under management. 6. This investment returns should be updated at a minimum within three months of end of each financial year. 7. The above returns to be disclosed in the Disclosure Document should be verified by an independent third party. Individual performance report should be prepared for various Investment Approaches offered by a Portfolio Manager. The attached sample report can be referred to for an Investment Approach Performance Report / Sample Performance Presentation. Footnotes are provided for each of the column headings in the sample report.	

		Draft Regulations to reflect changes mentioned in the Working Group Paper and references need to be changed accordingly. Disclosures to be made as per Annexure I	
2.	**Schedule IV: Point 4 (Page 53 of 68)** *Investment objectives and guidelines*	Reference to the investment approach to be included in Schedule IV.	Draft regulations talk about investment approach, however the Schedule makes no reference to "Investment Approach"
3.	**Schedule V: Disclosure Document (Page 57-58-62 of 68)** • *General instructions: Point 2: not in line with new changes mentioned* • *I. Front page (i): Refers to Regulation 14* • *7) Client Representation: Point 9: Refers to Regulation 14 and provisions of the old regulation*	Draft Regulations to reflect changes mentioned in the Working Group Paper and references need to be changed accordingly. Disclosures to be made as per Annexure I.	References are made to the provision of the extant regulations and needs to be corrected. References to be given correctly to the provisions of the new Regulations and changes reflected accordingly.
4.	**Regulation 29**: *Maintenance of books of accounts, records and other documents – The portfolio manager shall preserve the books of account and other records and documents mentioned in any of the regulations mentioned under this chapter* ***<u>for a minimum period of five years</u>***.	1. Books of accounts, records and other documents should be maintained **<u>at least for 10 years</u>** 2. Books and Records should be maintained for all the data and the time periods on the performance reports and marketing materials.	1. Lack of adequate books and records could lead to doubt over the validity and integrity of the returns reported. 2. To check disclosures and books for a longer tenure 3. The practice is also in accordance with global best practices
5.	**Schedule I Form B:** *Reference to Reg. 8 of the Draft Regulations* **Schedule I Form C:** *Reference to Reg. 14 of the Draft Regulations* **Schedule II:** *Reference to Reg. 12 of the Draft Regulations* **Schedule III:** *Reference to Reg. 13 of the Draft Regulations* **Schedule IV:** *Reference to Reg. 14 of the Draft Regulations* **Schedule V:** *Reference to Reg. 14 of the Draft Regulations*	References should be corrected to the appropriate regulation of the new Draft Regulations and not refer to the provisions of the SEBI PMS Regulations, 1993 **Schedule I Form B:** *Regulation 10* **Schedule I Form C:** *Regulation 22* **Schedule II:** *Regulation 15* **Schedule III:** *Regulation 21* 4. **Schedule IV:** *Regulation 22;* **Schedule V:** *Regulation 22*	Typo errors to be corrected and references to the appropriate sections be made in the Draft Regulations.
6.	**FORMAT I (Account Opening Form):** *Page 65 of 68* *3) Detailed investment objectives of the client: Format refers to venture funds*	Draft Regulation only allows investments in specific asset classes: listed equities, debt, derivatives and mutual funds. However, references have been made in the Format I to venture funds etc. while no references have been made to commodity derivatives.	References in format of the opening form to be made in line with the provisions of the new Draft Regulations.

Other Recommendations:

1. The regulator should allow adequate time for implementation of the guidelines. The beginning of a new financial year or at least 6 months would be the right window for implementation.

2. SEBI should allow one PAN number to have multiple custodian codes. Not allowing so, will require NRI investors and resident individuals investing in non-pooled system to have to invest with only one PMS

manager. This has the potential to increase the risk for such investors, causing unintended consequences for market stability.

3. The regulations around payment of Securities Transaction Tax by a PMS on behalf of clients are not quite clear. While in case of pooled trades, it has been accepted by the tax authorities for individual PMS managers to allocate the STT charges to clients on a pro-rata basis, but they need not do so in the future.

   We recommend that SEBI work with CBDT to include such a provision in the Income Tax Act whereby STT can be paid on behalf of assesses by a third party.

4. The portfolio manager should disclose what part of the transaction cost borne by the client is paid to a related party. The portfolio manager should not be permitted to have any agreements with service providers where part of the fees paid by the clients to the service providers are shared with the portfolio manager.

Annexure:

I. Sample GIPS Portfolio Performance Disclosures
II. Benchmarking Study of CFA Certification vs. Educational Levels in Finance in Different Geographies by UK NARIC

If you or your staff have questions or seek further clarification, please do not hesitate to contact Mr. Rajendra Kalur, CFA @ +91 98196 30042 or at advocacy@iaipirc.org

Sincerely yours,

Rajendra Kalur, CFA
Director - Research and Advocacy Committee
Indian Association of Investment Professionals, Member Society of CFA Institute

Annexure I:

Table 1: Summary of Investment Approaches offered by a Portfolio Manager

XYZ Portfolio Manager: Reporting for the Month of December 2018

Investment Approach	Brief Description of the Investment Approach / Benchmark	Investment Approach AuM (INR Cr.)	Returns							
			1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception	Inception Date
Multi Cap Equity	All cap equity with the goal of long-term capital growth involving moderate to high risk.	12,360	-8.3%	-12.1%	18.7%	10.9%	12.8%	13.3%	1-January-2002
Benchmark Total Return (e.g. BSE30)	A brief description of the relevant benchmark can be provided.	N/A	-7.6%	-10.1%	21.0%	9.9%	11.7%	12.9%	N/A
Fixed Income	Investment grade bonds with the goal of providing steady income involving low to moderate risk.	2,101	5.0%	3.9%	6.3%	7.1%	6.9%	7.3%	18-June-2005
Benchmark Total Return (e.g. Crisil Bond Index)	A brief description of the relevant benchmark can be provided.	N/A	5.7%	2.8%	6.1%	8.0%	5.9%	6.3%	N/A

The Investment Approach level returns reported above should be TWRR, net of trading expenses and management fee (both Fixed Management Fee and Performance Management Fees).
The Since Inception return for the benchmark should correspond to Since Inception date of the Investment Approach.
Returns for period longer than one year are annualized.

Table 2: Investment Approach Performance Report / Sample Performance Presentation

XYZ Portfolio Manager: Multi Cap Equity Investment Approach Performance Report

Reporting for the Month of December 2018 | Inception Date of the Investment Approach: 1-January-2002

Year[1]	Total AuM (INR Cr.)[2]	Investment Approach AuM (INR Cr.)[3]	Investment Approach Gross Return (%)[4]	Investment Approach Net Return (%)[5]	Benchmark Total Return (%)[6]	Investment Approach 3-Yr Std. Dev. (%)[7]	Benchmark 3-Yr Std. Dev. (%)[8]	No. of Portfolios under Investment Approach[9]	Internal Dispersion (%)[10]	Churn Ratio (%)[11]
2002	2,360	1,650	-10.5	-11.4	-11.8			3,100	4.5	18.7
2003	3,460	2,350	16.3	15.1	13.2			3,400	2.0	22.3
2004	5,290	3,440	7.5	6.4	8.9	6.5	7.9	3,800	5.7	24.0
2005	6,950	4,450	1.8	0.8	0.3	7.2	8.1	4,500	2.8	23.9
2006	8,390	5,200	11.2	10.1	12.2	12.0	10.8	4,800	3.1	28.7
2007	10,140	5,050	6.1	5.0	7.1	6.4	8.9	4,900	2.8	32.1
2008	9,640	4,750	-21.3	-22.1	-24.9	11.0	9.8	4,400	2.9	18.9
2009	9,830	4,930	16.5	15.3	14.7	8.7	6.9	4,700	3.1	13.8
2010	11,140	5,490	10.6	9.5	13.0	8.2	9.1	5,100	3.5	16.9
2011	12,360	5,750	2.7	1.7	0.4	7.1	7.4	5,400	2.5	21.3

Footnotes (Explanations to the terms):

1. Year: This could be financial year (1-April through 31-March) or calendar year (1-January through 31-December)
2. Total AuM: Total asset under management of for the portfolio manager across all its clients and investment approaches.
3. Investment Approach AuM: Asset under management of for the investment approaches for which the performance report is prepared above.
4. Investment Approach Gross Return: The return on investments reduced by only the trading expenses (e.g. brokerage, STT) incurred during the period.
5. Investment Approach Net Return: The gross- of- fees return reduced by investment management fees (fixed fee and performance fee).
6. Benchmark Total Return: A point of reference against which the composite's performance and/or risk is compared. The return of benchmark should be Total Return and not the Price Return.
7. Investment Approach 3-Yr Std. Dev.: A measure of the variability of returns of the Investment Approach. As a measure of historical risk, standard deviation quantifies the variability of the Investment Approach returns over time. This is three- year annualized ex- post standard deviation (using 36 monthly returns) of the Investment Approach. Not reported for the years where last 3 years history is not available.
8. Benchmark 3-Yr Std. Dev.: A measure of the variability of returns of the benchmark return. As a measure of historical risk, standard deviation quantifies the variability of the benchmark returns over time. This is three- year annualized ex- post standard deviation (using 36 monthly returns) of the Total Return of the benchmark. Not reported for the years where last 3 years history is not available.
9. No. of Portfolios under the Investment Approach: The number of portfolios in the Investment Approach as of each annual period end. This provides information to prospective clients on whether the Investment Approach is composed of a small number of portfolios or many.
10. Internal Dispersion: A measure of the spread of the annual returns of individual portfolios within an Investment Approach. Measures may include, but are not limited to, high/low, range, or standard deviation of portfolio returns.
11. Churn Ratio: The lower of total purchases or total sales for the year for all the portfolio under the Investment Approach, divided by the average Asset Under Management for the Investment Approach for year.

Annexure II

Table 1: Benchmarking CFA Qualifications against International Qualification Frameworks

		Claritas Investment Certificate	CIPM			CFA Program			
			Principles	Expert	Designation	Level I	Level II	Level III	Designation
Australia	Framework level standard	4	6	7	7	6	7	9	9
	Qualification level standard	Certificate IV	Advanced Diploma	Bachelor degree	Bachelor degree	Advanced Diploma	Bachelor degree	Master's degree	Master's degree
Canada	Framework level standard	5	9	10	10	9	10	12	12
	Qualification level standard	Certificate III (Ontario)	Post-Diploma (Ontario)	Bachelor degree	Bachelor degree	Post-Diploma (Ontario)	Bachelor degree	Master's degree	Master's degree
Hong Kong	Framework level standard	3	4	5	5	4	5	6	6
	Qualification level standard	Advanced Certificate	Advanced Diploma	Bachelor degree	Bachelor degree	Advanced Diploma	Bachelor degree	Master's degree	Master's degree
India	Framework level standard	Not Applicable*							
	Qualification level standard	Diploma (from a State Technical Board)	No direct comparability**	Bachelor degree	Bachelor degree	No direct comparability**	Bachelor degree	Master's degree	Master's degree
Ireland	Framework level standard	5	6	7	7	6	7	9	9
	Qualification level standard	NFQ Certificate Level 5	Higher Certificate	Bachelor degree	Bachelor degree	Higher Certificate	Bachelor degree	Master's degree	Master's degree
Malaysia	Framework level standard	3	5	6	6	5	6	7	7
	Qualification level standard	Certificate Standard	Advanced Diploma	Bachelor degree	Bachelor degree	Advanced Diploma	Bachelor degree	Master's degree	Master's degree

Philippines	Framework level standard	Not Applicable*							
	Qualification level standard	No direct comparability**	Bachelor degree	Bachelor degree from a highly ranked university / Centre of Excellence	Bachelor degree from a highly ranked university / Centre of Excellence	Bachelor degree	Bachelor degree from a highly ranked university / Centre of Excellence	No direct comparability**	No direct comparability**
Scotland	Framework level standard	5	8	9	9	8	9	11	11
Singapore	Framework level standard	Not Applicable							
	Qualification level standard	Higher Nitec	Specialist Diploma	Bachelor degree	Bachelor degree	Specialist Diploma	Bachelor degree	Master's degree	Master's degree
South Africa	Framework level standard	4	6	7	7	6	7	9	9
	Qualification level standard	National Certificate Level 4	National Certificate Level 6	Bachelor degree	Bachelor degree	National Certificate Level 6	Bachelor degree	Master's degree	Master's degree
Switzerland	Framework level standard	Not Applicable*		Nqf.ch.HS Bachelor	Nqf.ch.HS Bachelor	Not Applicable*	Nqf.ch.HS Bachelor	Nqf.ch.HS Master	Nqf.ch.HS Master
	Qualification level standard	No direct comparability**	No direct comparability**	Bachelor degree / *Licence*	Bachelor degree / *Licence*	No direct comparability**	Bachelor degree / *Licence*	Master's degree	Master's degree
USA	Framework level standard	Not Applicable*							
	Qualification level standard	Advanced Placement	No direct comparability**	Bachelor degree	Bachelor degree	No direct comparability**	Bachelor degree	Master's degree	Master's degree
Wales	Framework level standard	3	5	6	6	5	6	7	7

Not
es

*'Not Applicable' is used for countries without an implemented national qualifications framework at the time of writing or where the national framework does not incorporate levels of education relevant to this study

**No direct comparability is used to denote instances where there are no available national qualifications falling at the educational level represented by the relevant CFA examination or designation. In these cases further guidance has been provided in the relevant sections of the report to explain further why no comparability has been given.

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