

CIRCULAR

SEBI/HO/AFD/PoD-1/P/CIR/2024/123

September 19, 2024

To,

All Alternative Investment Funds

Dear Sir/Madam,

Subject: Modification in framework for valuation of investment portfolio of AIFs

1. SEBI (Alternative Investment Funds) Regulations, 2012 ('AIF Regulations') were amended and notified on June 15, 2023 and SEBI circular no. SEBI/HO/AFD/PoD/CIR/2023/97 dated June 21, 2023 [subsumed subsequently in Chapter 22 of Master Circular for AIFs dated May 07, 2024 ("Master Circular")] was issued to provide guidance to AIFs towards a consistent and standardized approach for valuation of their investment portfolios.
2. In terms of Clause 22.1.2 of the Master Circular, valuation of securities which are not covered in para 22.1.1 of the Master Circular, shall be carried out as per valuation guidelines (taking into account recommendations of AIPAC of SEBI), endorsed by any AIF industry association, which in terms of membership represents at least 33% of the number of SEBI registered AIFs.
3. In this context, an eligible AIF industry association meeting the aforesaid criteria, endorsed the International Private Equity and Venture Capital Valuation (IPEV) Guidelines for valuation of investment portfolio of AIFs in terms of Clause 22.1.2 of the Master Circular.
4. Subsequently, SEBI received representations from the AIF industry highlighting issues with regard to certain aspects of the valuation framework for AIFs. In this regard, based on the public comments on consultation paper on "*review of certain aspects of the framework for valuation of investment portfolio of AIFs*", recommendations of AIPAC and internal deliberations, the following has been decided:

4.1. Clause 22.1.1 of the Master Circular stands modified as under:

22.1.1 Valuation of securities, other than unlisted securities and listed securities which are non-traded and thinly traded, for which valuation norms have been prescribed under SEBI (Mutual Funds) Regulations,

1996 ('MF Regulations'), shall be carried out as per the norms prescribed under MF Regulations.

4.2. The valuation norms for securities which are not covered in Para 22.1.1 of the master circular have been provided in Clause 22.1.2 of the master circular. For the sake of clarity, the same is reproduced as under:

22.1.2 Valuation of securities which are not covered in para 22.1.1 above, shall be carried out as per valuation guidelines endorsed by any AIF industry association, which in terms of membership represents at least 33% of the number of SEBI registered AIFs. The eligible AIF industry association shall endorse appropriate valuation guidelines after taking into account recommendations of Alternative Investment Policy Advisory Committee of SEBI.

4.3. With respect to thinly traded and non-traded securities, it is envisaged to harmonize the valuation norms across entities within SEBI's regulatory purview in a time bound manner so as to facilitate applicability of the same for valuation of investment portfolios of AIFs on or after March 31, 2025.

4.4. Clause 22.2.2 of the Master Circular stands modified as under:

22.2.2 Change in valuation methodology/approach to comply with Clause 22.1 of Master circular for AIFs on 'Standardised approach to valuation of investment portfolio of AIFs', shall not be construed as 'Material Change'.

22.2.3 Change in methodology/approach within the valuation guidelines / valuation norms prescribed for AIFs, shall not be construed as a 'Material Change'. However, upon such change, the valuation of the investment carried out based on valuation methodologies / approaches, both old and new, shall be disclosed to the investors to ensure transparency.

4.5. The following new sub-clause is inserted in clause 22.3 of the Master Circular:

22.3.4 The eligibility criteria for independent valuer for a partnership entity or company shall be as follows –

- (i) Such entity or company shall be a 'Registered Valuer Entity' registered with IBBI; and,*

- (ii) *the deputed/authorized person(s) of such 'Registered Valuer Entity', who undertake(s) the valuation of investment portfolio of AIFs, shall have a membership of ICAI or ICSI or ICMAI or a CFA Charter from the CFA Institute.*

4.6. The specified timeline as prescribed in Clause 22.4.1 of the master circular, for reporting valuation based on audited data of investee companies as on March 31 every year, to performance benchmarking agencies, has been extended from “six months” to “seven months”. Accordingly, Clause 22.4.1 of the master circular stands modified as under:

22.4.1 Manager of AIF shall ensure that a specific timeframe for providing audited accounts by the investee company to the AIF is included as one of the terms in subscription agreement / investment agreement with the investee company, so as to enable AIFs to report valuation based on audited data of investee companies as on March 31 to performance benchmarking agencies within the specified timeline of seven months i.e by October 31 of each year.

5. The trustee/sponsor of AIF, as the case may be, shall ensure that the 'Compliance Test Report' prepared by the manager in terms of Chapter 15 of the master circular for AIFs, includes compliance with the provisions of this circular.
6. The provisions of this circular shall come into force with immediate effect.
7. 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 23 and Regulation 36 of AIF Regulations, 2012 to protect the interests of investors in securities and to promote the development of, and to regulate the securities markets.
8. The circular is available on SEBI website at www.sebi.gov.in under the categories “Legal framework -Circulars” and “Info for - Alternative Investment Funds”.

Yours faithfully,

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