

CIRCULAR

SEBI/HO/AFD/PoD/CIR/2023/97

June 21, 2023

To,

All Alternative Investment Funds

Sir / Madam,

Sub: Standardised approach to valuation of investment portfolio of Alternative Investment Funds (AIFs)

1. SEBI (Alternative Investment Funds) Regulations, 2012 ("AIF Regulations"), have been amended and notified on June 15, 2023. Copy of the notification is available at [link](#).

A. Manner of valuation of AIF's investments

2. In terms of Regulation 23(1), AIFs are *inter-alia* required to carry out valuation of their investments in the manner specified by SEBI from time to time.
3. In this regard, following is specified:
 - 3.1. Valuation of securities for which valuation norms have already been prescribed under SEBI (Mutual Funds) Regulations, 1996 ('MF Regulations'), shall be carried out as per the norms prescribed under MF Regulations.
 - 3.2. Valuation of securities which are not covered in para 3.1 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.
 - 3.3. The manager shall also disclose in PPM, the details of the valuation methodology and approach adopted under the stipulated guidelines for each asset class of the scheme of the AIF.

B. Responsibility of manager of AIF with regard to valuation of investments of AIF

4. In terms of Regulation 23(5) of AIF Regulations, the Manager and the key management personnel of manager shall ensure that the independent valuer computes and carries

out valuation of the investments of the scheme of the AIF in the manner as specified by the Board from time to time.

5. Further, in terms of Regulation 23(6) of AIF Regulations, Manager shall be responsible for true and fair valuation of the investments of the scheme of the AIF. In terms of proviso to aforesaid Regulation, in case the established policies and procedures of valuation do not result in fair and appropriate valuation, the Manager shall deviate from the established policies and procedures in order to value the assets or securities at a fair value and document the rationale for such deviation.
6. In this regard, following is specified:
 - 6.1. At each asset level, in case there is a deviation of more than 20% between two consecutive valuations or a deviation of more than 33% in a financial year, the manager shall inform the investors the reasons/factors for the same, both generic and specific, including but not limited to changes in accounting practices/policies, assumptions/projections, valuation methodology and approach, etc. and reasons thereof.
 - 6.2. Any change in the methodology and approach for valuation of investments of scheme of AIF, shall be construed as material change significantly influencing the decision of the investor to continue to be invested in the scheme of the AIF and the AIF shall adhere to process to be complied with in such cases as mentioned in SEBI circular No. CIR/IMD/DF/14/2014 dated June 19, 2014 and SEBI Circular No. CIR/IMD/DF/16/2014 dated July 18, 2014.
 - 6.3. The manager shall disclose the following as part of changes in PPM to be submitted annually to SEBI and investors:
 - 6.3.1. Details of changes in the valuation methodology and approach, if any, for valuation of each asset class of the scheme of the AIF;
 - 6.3.2. Details of changes in accounting practices/policies, if any, of the investee company and the scheme of the AIF; and
 - 6.3.3. Details of impact of the aforesaid changes in terms of valuation of the investments of the scheme of the AIF.

C. Eligibility criteria for Independent Valuer

7. In terms of Regulation 23(4), the Manager shall ensure that the AIF appoints an independent valuer, which satisfies the criteria specified by SEBI from time to time, for valuing investment portfolio of AIFs.

8. In this regard, the following is specified:

- 8.1. The independent valuer shall not be an associate of manager or sponsor or trustee of the AIF.
- 8.2. The independent valuer shall have at least three years of experience in valuation of unlisted securities.
- 8.3. The independent valuer shall fulfil one of the following criteria:
 - 8.3.1. The independent valuer is a valuer registered with Insolvency and Bankruptcy Board of India and has membership of Institute of Chartered Accountants of India or Institute of Company Secretaries of India or Institute of Cost Accountants of India or CFA Institute; or
 - 8.3.2. The independent valuer is a holding company or subsidiary of a Credit Rating Agency registered with SEBI; or
 - 8.3.3. Any other criteria as may be specified by SEBI from time to time.

D. Reporting of valuation of investments of AIF to performance benchmarking agencies

9. To ensure timely and appropriate reporting of valuation of investment portfolio to performance benchmarking agencies, the following is specified:
- 9.1. 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 six months.
 - 9.2. Manager of AIF shall ensure that valuation based on audited data of investee company is reported to performance benchmarking agencies only after the audit of books of accounts of the AIF in terms of Regulation 20(14) of AIF Regulations, within the stipulated timelines.
10. The manager of AIF shall submit report on compliance with the provisions of this circular on SEBI Intermediary Portal (www.siportal.sebi.gov.in) in the format as specified therein.
11. The trustee/sponsor of AIF, as the case may be, shall ensure that the 'Compliance Test Report' prepared by the manager in terms of SEBI Circular No. CIR/IMD/DF/14/2014 dated June 19, 2014, includes compliance with the provisions of this circular.

12. The provisions of this circular shall come into force with effect from November 01, 2023.
13. This circular is issued with the approval of the competent authority.
14. This circular is issued in exercise of powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.
15. 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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