

CIRCULAR

SEBI/HO/IMD/IMD-PoD-1/P/CIR/2024/35

May 02, 2024

To
All Portfolio Managers
Association of Portfolio Managers in India (APMI)

Madam/ Sir,

Sub: Portfolio Managers - Facilitating ease in digital on-boarding process for clients and enhancing transparency through disclosures

1. SEBI constituted various working groups to recommend measures to simplify and ease compliances under various SEBI Regulations. Accordingly, a working group was constituted to review the present regulatory framework under SEBI (Portfolio Managers) Regulations, 2020 and recommend measures to promote ease of doing business for Portfolio Managers. Based on the recommendations of the working group, a public consultation was carried out.
2. Pursuant to the above, the following has been decided:

2.1. Ease in digital on-boarding process for clients of Portfolio Managers

- 2.1.1. Regulation 22(1) of SEBI (Portfolio Managers) Regulations, 2020, *inter-alia* states that a portfolio manager shall, before taking up an assignment of management of funds and portfolio on behalf of a client, enter into an agreement in writing with such client that clearly defines the *inter-se* relationship and set out their mutual rights, liabilities and obligations relating to management of portfolio containing the details as specified in Schedule IV of SEBI (Portfolio Managers) Regulations, 2020.
- 2.1.2. Clause 4.3.3 of the Master Circular dated March 20, 2023 for Portfolio Managers ('Master Circular'), which requires the new clients to separately sign the annexure (on fees and charges) to the agreement between Portfolio Manager and the client ("PMS-client agreement"), and add in their own handwriting that they have understood the fees/charges structure, stands modified as under:

4.3.3. While on-boarding a client, Portfolio Manager shall ensure that:

- a) the client has understood the structure for fees and charges.
- b) the new client has separately signed the annexure on fees and charges and added a note, that they have understood the structure for fees and charges, in the following manner:
 - i) handwritten, in case the client is on-boarded through physical mode.
 - ii) typed using keyboard or written electronically using fingers/a stylus pen, in case the client is on-boarded through digital mode.

2.1.3. The above provision shall be applicable from October 01, 2024.

2.1.4. The standard procedure for on-boarding of client through digital mode shall be specified by APMI, in consultation with SEBI.

2.2. Fee calculation tool

2.2.1. Portfolio Manager shall provide a fee calculation tool to all clients that highlights various fee options with multi-year fee calculations. Such tool shall incorporate the high watermark principle, wherever applicable.

2.2.2. The link to access the said tool shall be provided in advance to all new clients, on-boarded on or after October 01, 2024.

2.3. Additional fees disclosures

2.3.1. PMS–client agreement

- a) In partial modification to the Clause 4.3.1 of Master Circular, whenever performance fees is charged to the client, the annexure for fees and charges to the PMS-client agreement, shall also contain the following additional fee illustrations:
 - One year and multi-year fee illustrations that cover different scenarios viz. increase in the portfolio value by a certain percentage, decrease in the portfolio value by a certain percentage and when the portfolio value remains unchanged. The said illustrations shall also suitably incorporate the high watermark principle.
- b) The above illustrations shall be provided for new clients, on-boarded on or after October 01, 2024.

- c) The standard formats for the above fee illustrations shall be specified by APMI, in consultation with SEBI.

2.3.2. Periodic reports

- a) In partial modification to the format of periodic report to be provided to the client, as specified in Annexure 5D to the Master Circular, Portfolio Manager shall also provide an annexure detailing the fee calculation.
- b) The above provision shall be applicable from October 01, 2024.
- c) The standard format for the annexure detailing the fee calculation shall be as specified by APMI, in consultation with SEBI.

2.4. “Most Important Terms and Conditions (MITC)” document

- 2.4.1. In order to facilitate ease of understanding of the critical aspects of the Portfolio Manager-client relationship, Portfolio Manager shall additionally provide to its client a “Most Important Terms and Conditions (MITC)” document, which shall be duly acknowledged by the client.
 - 2.4.2. The Portfolio Manager shall ensure compliance with para 2.4.1, for new clients, on-boarded on or after October 01, 2024.
 - 2.4.3. For existing clients, the MITC shall be informed to the clients via email or any other suitable mode of communication (which can be preserved) by January 01, 2025.
 - 2.4.4. The standard format for MITC shall be specified by the APMI, in consultation with SEBI.
- 3. Portfolio Manager shall ensure that no additional fees and charges are levied, other than those specified in the annexure (on fees and charges) to the PMS-client agreement.
 - 4. This circular shall come into effect from October 01, 2024. APMI shall issue the standard procedures and formats mentioned at para 2.1.4, 2.3.1(c), 2.3.2 (c) and 2.4.4 by July 31, 2024.
 - 5. This circular is issued in exercise of the powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992 read with Regulation 43 of SEBI (Portfolio Managers) Regulations, 2020, to protect the interest of investors in securities and to promote the development of, and to regulate the securities market.

6. This circular is available at under the link “Legal ->Circulars”.

Yours faithfully,

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