SECURITIES AND EXCHANGE BOARD OF INDIA (PORTFOLIO MANAGERS) REGULATIONS, 1993

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PUBLISHED BY AUTHORITY

NOTIFICATION

Bombay, the 7th January, 1993

SECURITIES AND EXCHANGE BOARD OF INDIA (PORTFOLIO MANAGERS) REGULATIONS, 1993

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SEBI/LE/92/III.—In exercise of the powers conferred by section 30 of the Securities and Exchange Board of India Act, 1992 (15 of 1992), the Securities and Exchange Board of India hereby makes the following regulations, namely:—

CHAPTER I

PRELIMINARY

1. Short title and commencement.—(1) These regulations may be called the Securities and Exchange Board of India (Portfolio Managers) Regulations, 1993.

(2) They shall come into force on the date[1] of their publication in the Official Gazette.

[1] 7th January, 1993, *vide* S.O. No. SEBI/LE/92/III, dated 7-01-1993, Gazette of India, Extraordinary, 1993, Part III, section 4.

2. Definitions.— In these regulations, unless the context otherwise requires,—

[2][(a) "Act" means the Securities and Exchange Board of India Act, 1992 (15 of 1992);]

[3][(aa)] [4][* * *]

[5][(aa) "body corporate" shall have the meaning assigned to it in or under clause (7) of section 2 of the Companies Act, 1956 (1 of 1956);

(ab) "certificate" means a certificate of registration issued by the Board;

(ac) "change of status or constitution" in relation to a portfolio manager—

(i) means any change in its status or constitution of whatsoever nature; and

(ii) without prejudice to generality of sub-clause (i), includes–

(A) amalgamation, demerger, consolidation or any other kind of corporate restructuring falling within the scope of section 391 of the Companies Act, 1956 (1 of 1956) or the corresponding provision of any other law for the time being in force;

(B) change in its managing director or whole-time director; and

(C) any change in control over the body corporate;

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[2] Inserted by the SEBI (Portfolio Managers) (Second Amendment) Regulations, 2006, w.e.f. 7-9-2006.

[3] Clause (a) renumbered as (aa) by the SEBI (Portfolio Managers) (Amendment) Regulations, 2002, w.e.f. 11-10-2002.

[4] Omitted by the SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002, w.e.f. 27-9-2002. Prior to omission, clause (aa) read as under:
"(aa) "Enquiry Officer" means any officer of the Board, or any other person, having experience in dealing with the problems relating to the securities market, who is authorized by the Board under Chapter V;"

[5] Inserted by the SEBI (Portfolio Managers) (Second Amendment) Regulations, 2006, w.e.f. 07-09-2006.

(ad) "change in control", in relation to a portfolio manager being a body corporate, means:—

(i) if its shares are listed on any recognized stock exchange, change in control within the meaning of regulation 12 of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997;

(ii) in any other case, change in the controlling interest in the body corporate;

Explanation.— For the purpose of sub-clause (ii), the expression "controlling interest" means an interest, whether direct or indirect, to the extent of at least fifty one percent of voting rights in the body corporate;]

[6][(ae)] "chartered accountant" means a chartered accountant as defined in clause (b) of sub-section (1) of section 2 of the Chartered Accountants Act, 1949 (38 of 1949) and who has obtained a certificate of practice under sub-section (1) of section 6 of that Act;]

[7][(af) "custodian" means a person who has been granted a certificate of registration to carry on the business of custodian under the Securities and Exchange Board of India (Custodian) Regulations, 1996;

(ag) "discretionary portfolio manager" means a portfolio manager who exercises or may exercise, under a contract relating to portfolio

[6] Inserted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2002, w.e.f. 11-10-2002, as clause (a) renumbered as clause (ae) by the SEBI (Portfolio Managers) (Second Amendment) Regulations, 2006, w.e.f. 07-09-2006.

[7] Clause (af) substituted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2019, w.e.f. 10-05-2019. Prior to its substitution, the clause was inserted by the SEBI (Portfolio Managers) (Second Amendment) Regulations, 2006, w.e.f. 07-09-2006 and read as follows,-

"(af) "discretionary portfolio manager" means a portfolio manager who exercises or may, under a contract relating to portfolio management, exercise any degree of discretion as to the investments or management of the portfolio of securities or the funds of the client, as the case may be"

management, any degree of discretion as to the investments or management of the portfolio of securities or the funds of the client, as the case may be;]

[8][(af) "discretionary portfolio manager" means a portfolio manager who exercises or may, under a contract relating to portfolio management, exercise any degree of discretion as to the investments or management of the portfolio of securities or the funds of the client, as the case may be;]

(b) "form" means a form specified in Schedule I;

[9][(ba) "goods" means the goods notified by the Central Government under clause (bc) of section 2 of the Securities Contracts (Regulation) Act, 1956 and forming the underlying of any commodity derivative;]

(c) "inspecting authority" means one or more persons appointed by the Board to exercise powers conferred under Chapter IV;

[10][(ca) "portfolio" means the total holdings of securities [11][and goods] belonging to any person;

(cb) "portfolio manager" means any person who pursuant to a contract or arrangement with a client, advises or directs or undertakes on behalf of the client (whether as a discretionary portfolio manager or otherwise) the management or administration of a portfolio of

[8] Inserted by the SEBI (Portfolio Managers) (Second Amendment) Regulations, 2006, w.e.f. 07-09-2006.
[9] Inserted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2019, w.e.f. 10-05-2019.
[10] Inserted by the SEBI (Portfolio Managers) (Second Amendment) Regulations, 2006, w.e.f. 07-09-2006.
[11] Inserted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2019, w.e.f. 10-05-2019.

securities [12][or goods] or the funds of the client, as the case may be;]

[13][Provided that the Portfolio Manager may also deal in goods received in delivery against physical settlement of commodity derivatives.]

[14][(d) "principal officer" means an employee of the portfolio manager who has been designated as such by the portfolio manager;]

[(e)] [15][* * *]

[16][(ea) "securities" mean securities as defined in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956;

(eb) "securities lending" means the securities lending as per the Securities Lending Scheme, 1997 specified by the Board;]

(f) Words and expressions used and not defined in these regulations but defined in the Act [17][* * *] shall have the meanings respectively assigned to them in the Act [18][* * *].

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[12] Inserted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2019, w.e.f. 10-05-2019.
[13] Inserted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2019, w.e.f. 10-05-2019.
[14] Substituted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2006, w.e.f. 05-07-2006. Prior to substitution, clause (d) as substituted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2002, w.e.f. 11-10-2002 read as under:
"(d) "principal officer" means a director of the portfolio manager, who is responsible for the activities of portfolio management and has been designated as principal officer by the portfolio manager;"
[15] Omitted by the SEBI (Portfolio Managers) (Second Amendment) Regulations, 2006 w.e.f. 07-09-2006. Prior to omission, clause (e) read as under:
"(e) "rules" means Securities and Exchange Board of India (Portfolio Managers) Rules, 1992;"
[16] Clause (ea) substituted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2019, w.e.f. 10-05-2019. Prior to its substitution, the clause was inserted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2002, w.e.f. 11-10-2002 and read as follows,-
"(ea) "securities lending" means the securities lending as per the Securities Lending Scheme, 1997 specified by the Board"
[17] The words "and the rules" omitted by the SEBI (Portfolio Managers) (Second Amendment) Regulations, 2006, w.e.f. 07-09-2006.
[18] The words "or the rules, as the case may be" omitted, *ibid*.

CHAPTER II

REGISTRATION OF PORTFOLIO MANAGERS

[19][**3. Registration as portfolio manager**.— No person shall act as portfolio manager unless he holds a certificate granted by the Board under these regulations:

Provided that a merchant banker acting as a portfolio manager immediately before commencement of the Securities and Exchange Board of India (Portfolio Managers) (Second Amendment) Regulations, 2006 may continue to do so for a period of six months from such commencement or, if he has made an application for registration under these regulations within the said period of six months, till the disposal of such application.]

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[20][**3A. Application for grant of certificate**.—[21][(1) An application by a portfolio manager for the grant of a certificate shall be made to the Board in *Form A* and shall be accompanied by a non-refundable application fee, as specified in clause (1) of Schedule II, to be paid in the manner specified in *Part B* thereof.]

(2) Notwithstanding anything contained in sub-regulation (1), any application made by a portfolio manager prior to coming into force of these regulations containing such particulars or as near thereto as mentioned in Form A shall be treated as an application made in pursuance of sub-regulation (1) and dealt with accordingly.]

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19 Inserted by the SEBI (Portfolio Managers) (Second Amendment) Regulations, 2006, w.e.f. 07-09-2006.

20 Regulation '3' renumbered as '3A' by the SEBI (Portfolio Managers) (Second Amendment) Regulations, 2006, w.e.f. 07-09-2006.

21 Substituted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2004, w.e.f. 27-05-2004. Prior to substitution, sub-regulation (1) read as under:

"(1) An application by a portfolio manager for a grant of a certificate shall be made to the Board in Form A."

4. Application to conform to the requirements.— Subject to the provisions of sub-regulation (2) of regulation 3, any application, which is not complete in all respects and does not conform to the instructions specified in the form, shall be rejected:

Provided that, before rejecting any such application, the applicant shall be given an opportunity to remove within the time specified such objections as may be indicated by the Board.

5. Furnishing of further information, clarification and personal representation.—(1) The Board may require the applicant to furnish further information or clarification regarding matters relevant to his activity of a portfolio manager for the purposes of disposal of the application.

(2) The applicant or, its principal officer shall, if so required, appear before the Board for personal representation.

[22][**6. Consideration of application**.—(1) For considering the grant of certificate of registration to the applicant, the Board shall take into account

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[22] Substituted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2002, w.e.f. 11-10-2002. Prior to substitution, regulation 6 read as under:

"*6. Consideration of application*.— The Board shall take into account for considering the grant of a certificate, all matters which are relevant to the activities relating to portfolio manager and in particular whether the applicant complies with the following requirements namely: -

(a) the applicant has the necessary infrastructure like adequate office space, equipments, and manpower to effectively discharge his activities;

(b) the applicant has in his employment minimum of two persons who have the experience to conduct the business of portfolio manager;

(c) a person, directly or indirectly connected with the applicant has not been granted registration by the Board in case of the applicant being a body corporate;

Explanation.— For the purposes of this clause the expression "directly or indirectly connected" means any person being an associate, subsidiary, inter-connected or group company of the applicant in case of the applicant being a body corporate;

(d) the applicant fulfils the capital adequacy requirements specified in regulation 7;

(e) the applicant, his partner, director or principal officer is not involved in any litigation connected with the securities market and which has an adverse bearing on the business of the applicant;

(f) the applicant, his director, partner or principal officer has not at any time been convicted for any offence involving moral turpitude or has been found guilty of any economic offence;

all matters which it deems relevant to the activities relating to portfolio management.

(2) Without prejudice to the generality of the foregoing provisions, the Board shall consider whether-

(a) the applicant is a body corporate;

(b) the applicant has the necessary infrastructure like adequate office space, equipments and the manpower to effectively discharge the activities of a portfolio manager;

[23][(c) the principal officer of the applicant has either–

(i) a professional qualification in finance, law, accountancy or business management from a university or an institution recognized by the Central Government or any State Government or a foreign university; or

(ii) an experience of at least ten years in related activities in the securities market including in a portfolio manager, stock broker or as a fund manager [24][;]]

[25][(iii) a CFA charter from the CFA Institute.]

(d) the applicant has in its employment minimum of two persons who, between them, have at least five years experience [26][in

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(g) the applicant has the professional qualification from an institution recognized by the Government in finance, law, accountancy or business management;
gg) the applicant is a fit and proper person; [Clause (gg) inserted by the SEBI (Portfolio Mangers) (Amendment) Regulations, 1998, w.e.f. 05-01-1998.]
(h) grant of certificate to the applicant is in the interest of investors.

[23] Substituted by the SEBI (Portfolio Managers) (Second Amendment) Regulations, 2006, w.e.f. 05-07-2006. Prior to substitution, clause (c) read as under:
"(c) the principal officer of the applicant has the professional qualifications in finance, law, accountancy or business management from an institution recognized by the Government;"

[24] Substituted for "." by the SEBI (Portfolio Managers) (Amendment) Regulations, 2016, w.e.f. 02-01-2017.

[25] Inserted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2016, w.e.f. 02-01-2017.

[26] Substituted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2008, w.e.f. 11-08-2008 for the words "as portfolio manager or stock broker or investment manager."

related activities in portfolio management or stock broking or investment management] or in the areas related to fund management;

(e) any previous application for grant of certificate made by any person directly or indirectly connected with the applicant has been rejected by the Board;

(f) any disciplinary action has been taken by the Board against a person directly or indirectly connected with the applicant under the Act or the Rules or the Regulations made thereunder.

Explanation.— For the purposes of sub-clauses (e) and (f), the expression "person directly or indirectly connected" means any person being an associate, subsidiary, inter-connected company or a company under the same management within the meaning of section 370(1B) of the Companies Act,1956 or in the same group;

(g) the applicant fulfills the capital adequacy requirements specified in regulation 7;

(h) the applicant, its director, principal officer or the employee as specified in clause (d) is involved in any litigation connected with the securities market which has an adverse bearing on the business of the applicant;

(i) the applicant, its director, principal officer or the employee as specified in clause (d) has at any time been convicted for any offence involving moral turpitude or has been found guilty of any economic offence;

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(j) [27][the applicant is a fit and proper person;]

(k) grant of certificate to the applicant is in the interest of investors.]

[28][**6A. Criteria for fit and proper person.—** For the purposes of determining whether an applicant or the portfolio manager is a fit and proper person the Board may take into account the criteria specified in Schedule II of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008.]

[29][**7. Capital Adequacy Requirement**.—The capital adequacy requirement referred to in clause (g) of regulation 6 shall not be less than the networth of [30][two crore rupees]:

[31][Provided that a portfolio manager, who was granted a certificate under these regulations prior to the commencement of the Securities and Exchange Board of India (Portfolio Managers) (Amendment) Regulations, 2008, shall raise its networth to not less than one crore rupees within six

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[27] Inserted by the SEBI (Portfolio Managers) (Amendment) Regulations, 1998, w.e.f. 05-01-1998.

[28] Substituted by the SEBI (Intermediaries) Regulations, 2008, w.e.f. 25-05-2008. Prior to substitution, Regulation 6A, inserted by the SEBI (Criteria for fit and proper person) Regulations, 2004, read as under:

"*6A. Applicability of Securities and Exchange Board of India (Criteria for fit and proper person) Regulations, 2004.*—The provisions of the Securities and Exchange Board of India (Criteria for fit and proper person) Regulations, 2004 shall, as for as may be, apply to all applicants or the portfolio managers under these regulations."

[29] Substituted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2002, w.e.f. 11-10-2002. Prior to substitution, regulation 7 read as under:

"*7. Capital Adequacy requirement.*— The capital adequacy requirement referred to in sub-regulation (d) of regulation 6 shall not be less than the networth of Rupees fifty lacs of the person making the application;

Explanation.—For the purposes of this regulation, "networth" means in the case of an applicant which is a partnership firm or a body corporate, the value of a capital contributed to the business of such firm or the paid up equity capital of such body corporate and plus free reserves as the case may be at the time of making application under sub-regulation (1) of regulation 3."

[30] Words "fifty lacs rupees" substituted for the words "two crore rupees" by the SEBI (Portfolio Managers) (Amendment) Regulations, 2008, w.e.f. 11-08-2008.

[31] Inserted, *ibid*.

months from such commencement and to not less than two crore rupees within six months thereafter:

Provided further that the portfolio manager shall fulfill capital adequacy requirement under these regulations, separately and independently, of capital adequacy requirements, if any, for each activity undertaken by it under the relevant regulations.]

Explanation.— For the purposes of this regulation, "networth" means the aggregate value of paid up equity capital plus free reserves (excluding reserves created out of revaluation) reduced by the aggregate value of accumulated losses and deferred expenditure not written off, including miscellaneous expenses not written off.]

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[32]**[8. Procedure for registration**.— (1) The Board on being satisfied that the applicant fulfils the requirements specified in regulation 6 shall send an intimation to the applicant and on receipt of the payment of registration fees as specified in clause (1A) of Schedule II then grant a certificate in Form B.

(2) The portfolio manager who has already been granted certificate of registration by the Board, prior to the commencement of the Securities and Exchange Board of India (Change in Conditions of Registration of Certain Intermediaries) (Amendment) Regulations, 2016 shall be deemed to have been granted a certificate of registration, in terms of sub-regulation (1).]

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[32] Substituted by the Securities and Exchange Board of India (Change In Conditions Of Registration Of Certain Intermediaries) (Amendment) Regulations, 2016 w.e.f. 08-12-2016. Prior to substitution, regulation 8 read as under:

"**8. Procedure for registration**.— The Board on being satisfied that the applicant fulfils the requirements specified in regulation 6 shall send an intimation to the applicant and on receipt of the payment of [32][registration] fees as specified in [26][clause (1A) of] Schedule II then grant a certificate in Form B."

- The word "registration", inserted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2004, w.e.f. 27-5-2004.
- The words "clause (1A) of" inserted, ibid.

[33][***]

[34][**9A. Conditions of registration.**—(1) Any registration granted under regulation 8 [35][***] shall be subject to the following conditions, namely:-

(a) where the portfolio manager proposes to change its status or constitution, it shall obtain prior approval of the Board for continuing to act as such after the change;

(b) it shall pay the fees for registration [36][***] in the manner provided in these regulations;

(c) it shall take adequate steps for redressal of grievances of the investors within one month of the date of the receipt of the complaint and keep the Board informed about the number, nature and other particulars of the complaints received;

(d) it shall maintain capital adequacy requirements specified in regulation 7 at all times during the period of the certificate [37][***];

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[33] Omitted by the Securities and Exchange Board of India (Change In Conditions Of Registration Of Certain Intermediaries) (Amendment) Regulations, 2016 w.e.f. 08-12-2016. Prior to omission, regulation 9 read as under:

"9. Renewal of certificate.—(1) A portfolio manager may, three months before the expiry of the validity of the certificate, make an application for renewal in Form A [33][along with fees specified in clause 1 of Schedule II.]

(2) The application for renewal, under sub-regulation (1) shall be dealt with in the same manner as if it were an application for grant of a certificate made under regulation 3.

[33][(3) The Board, on being satisfied that the applicant fulfills the requirements specified in regulation 6, shall send an intimation to the applicant and on receipt of payment of renewal fees as specified in paragraph 2 of Schedule II, grant a renewal of the certificate.]"

- The words "along with fees specified in clause 1 of Schedule II" inserted by the SEBI (Portfolio Managers) (Second Amendment) Regulations, 2006, w.e.f. 07-9-2006.

- Sub- regulation (3) substituted by the SEBI (Portfolio Managers) (Second Amendment) Regulations, 2006, w.e.f. 07-09-2006. Prior to substitution, sub-regulation (3) read as under: "(3) The Board on being satisfied that the applicant fulfils the requirements specified in regulation 6 for renewal of certificate shall grant a certificate in Form B and send an intimation to the applicant."

[34] Inserted by the SEBI (Portfolio Managers) (Second Amendment) Regulations, 2006, w.e.f. 07-09-2006.

[35] The words "or any renewal granted under regulation 9", omitted by the Securities and Exchange Board of India (Change In Conditions Of Registration Of Certain Intermediaries) (Amendment) Regulations, 2016 w.e.f. 08-12-2016.

[36] The words "or renewal, as the case may be,", omitted by the Securities and Exchange Board of India (Change In Conditions Of Registration Of Certain Intermediaries) (Amendment) Regulations, 2016 w.e.f. 08-12-2016.

[37] The words "or renewal thereof", omitted by the Securities and Exchange Board of India (Change In Conditions Of Registration Of Certain Intermediaries) (Amendment) Regulations, 2016 w.e.f. 08-12-2016.

(e) it shall abide by the regulations made under the Act in respect of the activities carried on by it as portfolio manager.

(2) Nothing contained in clause (a) of sub-regulation (1) shall affect the obligation to obtain a fresh registration under section 12 of the Act in cases where it is applicable.]

[38]**[9B. Period of validity of certificate**.— The certificate of registration granted under regulation (8) shall be valid unless it is suspended or cancelled by the Board.**]**

10. Procedure where registration is not granted.—(1) Where an application for grant of a certificate under regulation 3 [39][***] does not satisfy the requirements set out in regulation 6, the Board may reject the application, after giving an opportunity of being heard.

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(2) The refusal to grant registration shall be communicated by the Board within thirty days of such refusal to the applicant stating therein the grounds on which the application has been rejected.

(3) Any applicant may, being aggrieved by the decision of the Board under sub-regulation (1), apply within a period of thirty days from the date of receipt of such intimation, to the Board for reconsideration of its decision.

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[38] Substituted by the Securities and Exchange Board of India (Change In Conditions Of Registration Of Certain Intermediaries) (Amendment) Regulations, 2016 w.e.f. 08-12-2016. Prior to substitution regulation 9B was inserted by the SEBI (Portfolio Managers) (Second Amendment) Regulations, 2006, w.e.f. 07-09-2006 and read as under:
"**9B. Period of validity of certificate**.— The certificate of registration granted under regulation 8 and its renewal granted under regulation 9, shall be valid for a period of three years from the date of its issue to the applicant."

[39] The words "or of renewal under regulation 9" omitted by the Securities and Exchange Board of India (Change In Conditions Of Registration Of Certain Intermediaries) (Amendment) Regulations, 2016 w.e.f. 08-12-2016.

(4) The Board shall reconsider an application made under sub-regulation (3) and communicate its decision as soon as possible in writing to the applicant.

11. Effect of refusal to grant certificate.— Any portfolio manager whose application for a certificate has been refused by the Board shall on and from the date of the receipt of the communication under sub-regulation (2) of regulation 10 cease to carry on any activity as portfolio manager.

12. Payment of fees, and the consequences of failure to pay fees.—(1) Every applicant eligible for grant of a certificate shall pay fees in such manner and within the period specified in Schedule II.

(2) Where a portfolio manager fails to pay the fees as provided in Schedule II, the Board may suspend the certificate, whereupon the portfolio manager shall forthwith cease to carry on the activity as a portfolio manager for the period during which the suspension subsists.

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[40][CHAPTER II-A

ELIGIBLE FUND MANAGERS

Definitions

12A. For the purposes of this Chapter, unless the context otherwise requires

(i) The term “eligible fund manager” shall have the same meaning as assigned to it in sub section (4) of Section 9A of the Income-tax Act, 1961.

[40] Inserted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2016, w.e.f. 02-01-2017.

(ii) The term “eligible investment fund” shall have the same meaning as assigned to it in sub section (3) of Section 9A of the Income-tax Act, 1961.

Applicability

12B. (1) The provisions of this Chapter shall apply to eligible fund managers exclusively, pertaining to their activities as portfolio managers to eligible investment funds.

(2) All other provisions of these regulations and the guidelines and circulars issued thereunder, unless the context otherwise requires or repugnant to the provisions of this chapter, shall apply to eligible fund managers in relation to their activities as portfolio managers to eligible investment funds.

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Procedure to be followed by an existing Portfolio Manager

12 C. An existing portfolio manager may act as a portfolio manager to an eligible fund manager if:

a) it fulfills all the conditions specified in sub section (4) of Section 9A of the Income-tax Act, 1961; and

b) it intimates the Board prior to undertaking such activity and submit declarations as specified in clause (1) of Schedule VI.

Procedure to be followed by an applicant for fresh registration

12D. An applicant who is a company or a limited liability partnership or a body corporate who intends to act as an eligible fund manager may be granted registration under regulation 8 if:

a) it fulfills all the conditions specified in sub section (4) of Section 9A of the Income-tax Act, 1961;

b) it complies with the requirements specified under Chapter II of these regulations, unless specified otherwise in this Chapter;

c) it pays the fees as specified in Schedule II; and

d) it provides a declaration to the Board as specified in clause (2) of Schedule VI.

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Obligation and Responsibilities of Eligible Fund Managers

12E. An eligible fund manager shall be required to:

(1) comply with the requirements specified under Section 9A of the Income-tax Act, 1961 or any amendment, notification, clarification, guideline issued thereon; 4

(2) offer discretionary or non-discretionary or advisory services or a combination thereof to eligible investment funds;

(3) operate in accordance to its mutually agreed contract with the eligible investment funds;

(4) provide all material disclosures to eligible investment funds;

(5) segregate funds and securities of each eligible investment fund;

(6) segregate the funds and securities of eligible investment funds from that of its other clients;

(7) maintain and segregate its books and accounts pertaining to its activities as a portfolio manager to eligible investment funds and other clients;

(8) appoint a custodian: Provided that requirement of compliance to this sub-regulation does not arise in case an eligible investment fund has already appointed a custodian under the applicable act or regulations;

(9) keep the funds of eligible investment funds in scheduled commercial banks:

Provided that requirement of compliance to this sub-regulation does not arise in case an eligible investment fund does not intend to invest in Indian securities;

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(10) maintain any additional records as may be specified by the Board and disclose the same to the Board as and when required;

(11) provide quarterly reports to the Board;

(12) ensure compliance with the Prevention of Money Laundering Act, 2002 and rules and regulations prescribed thereunder;

(13) abide by the provisions in these regulations and circulars / guidelines issued from time to time by the Board.

Certain provisions not to apply

12F. The eligible fund managers shall be exempted from the following provisions pertaining to their activities as portfolio managers to eligible

investment funds notwithstanding anything contained in these regulations, schedules thereto or circulars made thereunder:

(i) clauses (a) and (b) of sub-regulation (1) of Regulation 14;

(ii) clauses (a) and (b) of sub-regulation (2) of Regulation 14;

(iii) sub-regulations (1A), (2), (2A), (4A) and (5) of Regulation 15;

(iv) first proviso to sub-regulation (3) of Regulation 16;

(v) clause (b) of sub-regulation (1) of Regulation 16;

(vi) clause (a) of sub-regulation (2) of Regulation 16;

(vii) sub-regulation (4) of Regulation 16;

(viii) sub-regulation (1) of Regulation 16B;

(ix) Regulation 18;

(x) sub-regulation (3) of Regulation 20;

(xi) sub-regulations (1), (1A), (2) and (3) of Regulation 21;

(xii) Form C in Schedule I; and (xiii) Schedules IV and V.**]**

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CHAPTER III

GENERAL OBLIGATIONS AND RESPONSIBILITIES

13. Code of Conduct.— Every portfolio manager shall abide by the Code of Conduct as specified in Schedule III.

[41][**14. Contract with clients and disclosures**.— (1) (a) The portfolio manager shall, before taking up an assignment of management of funds or portfolio of securities on behalf of a client, enter into an agreement in writing with such client clearly defining the *inter se* relationship, and setting out their mutual rights, liabilities and obligations relating to management of funds or portfolio of securities containing the details as specified in Schedule IV.

(b) The agreement between the portfolio manager and the client shall, *inter alia*, contain:

(i) the investment objectives and the services to be provided;

(ii) areas of investment and restrictions, if any, imposed by the client with regard to the investment in a particular company or industry;

(iii) type of instruments and proportion of exposure;

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[41] Substituted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2002, w.e.f. 11-10-2002. Prior to substitution, regulation 14 read as under:

"*14. Contract with clients.—(*1) (a) Every portfolio manager shall before taking up an assignment of management of portfolio on behalf of a client, enter into an agreement with such client clearly defining the inter-se relationship, and setting out their mutual rights, liabilities and obligations relating to management of the portfolio of the client.

(b) The contract shall, inter alia, contain; -

(i) the investment objectives and the services to be provided;

(ii) areas of investment and restrictions, if any, imposed by the client with regard to investment in a particular company or industry;

(iii) attendant risks involved in the management of the portfolio;

(iv) period of the contract and provision of early termination, if any;

(v) amount to be invested;

(vi) procedure of settling client's account including form of repayment on maturity or early termination of contract;

(vii) fees payable to the portfolio manager;

(viii)custody of securities.

(2) The funds of all clients shall be placed by the portfolio manager in a separate account to be maintained by him in a scheduled commercial bank.

Explanation.—For the purposes of this sub-regulation "scheduled bank" means any bank included in the Second Schedule to the Reserve Bank of India Act, 1934 (2 of 1934);

(3) The portfolio manager shall charge an agreed fee from the client for rendering portfolio management services without guaranteeing or assuring, either directly or indirectly any return and such fee shall be independent of the return to the client and shall not be on a return sharing basis."

(iv) tenure of portfolio investments;

(v) terms for early withdrawal of funds or securities by the clients;

(vi) attendant risks involved in the management of the portfolio**;**

(vii) period of the contract and provision of early termination, if any;

(viii) amount to be invested subject to the restrictions provided under these regulations;

(ix) procedure of settling client's account including form of repayment on maturity or early termination of contract;

(x) fees payable to the portfolio manager;

(xi) the quantum and manner of fees payable by the client for each activity for which service is rendered by the portfolio manager directly or indirectly (where such service is out sourced);

(xii) custody of securities[42][and goods];

(xiii) in case of a discretionary portfolio manager a condition that the liability of a client shall not exceed his investment with the portfolio manager;

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[42] Inserted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2019, w.e.f. 10-05-2019.

(xiv) the terms of accounts and audit and furnishing of the reports to the clients as per the provisions of these regulations; and

(xv) other terms of portfolio investment subject to these regulations.

(2) (a) The portfolio manager shall provide to the client, the Disclosure Document as specified in Schedule V, along with a certificate in Form C as specified in Schedule I, at least two days prior to entering into an agreement with the client as referred to in sub-regulation (1).

(b) The Disclosure Document, shall *inter alia* contain the following–

(i) the quantum and manner of payment of fees payable by the client for each activity for which service is rendered by the portfolio manager directly or indirectly (where such service is out sourced);

(ii) portfolio risks;

(iii) complete disclosures in respect of transactions with related parties as per the accounting standards specified by the Institute of Chartered Accountants of India in this regard;

(iv) the performance of the portfolio manager:

Provided that the performance of a discretionary portfolio manager shall be calculated using weighted average method taking each individual category of investments for the immediately preceding three years and

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in such cases performance indicators shall also be disclosed;

(v) the audited financial statements of the portfolio manager for the immediately preceding three years.

(c) The contents of the Disclosure Document shall be certified by an independent chartered accountant.

(d) The portfolio manager shall file with the Board, a copy of the Disclosure Document before it is circulated or issued to any person and every six months thereafter or whenever any material change is effected therein whichever is earlier, along with the certificate in Form C as specified in Schedule I.

(3) (a) The portfolio manager shall charge an agreed fee from the clients for rendering portfolio management services without guaranteeing or assuring, either directly or indirectly, any return and the fee so charged may be a fixed fee or a return based fee or a combination of both.

(b) The portfolio manager may, subject to the disclosure in terms of the Disclosure Document and specific permission from the client, charge such fees from the client for each activity for which service is rendered by the portfolio manager directly or indirectly (where such service is out sourced).]

15. General responsibilities of a Portfolio Manager.—(1) The discretionary portfolio manager shall individually and independently manage the funds of each client in accordance with the needs of the client in a manner which does not partake character of a Mutual Fund, whereas the non-discretionary portfolio manager shall manage the funds in accordance with the directions of the client.

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[43][(1A) The portfolio manager shall not accept from the client, funds or securities worth less than [44][twenty five lacs] rupees.]

[45][Provided that the minimum investment amount per client shall be applicable for new clients and fresh investments by existing clients:

Provided further that existing investments of clients, as on date of notification of Securities and Exchange Board of India (Portfolio Managers) (Amendment) Regulations, 2012, may continue as such till maturity of the investment.]

(2) The portfolio manager shall act in a fiduciary capacity with regard to the client's funds.

[46][(2A) The portfolio manager shall keep the funds of all clients in a separate account to be maintained by it in a Scheduled Commercial Bank.

Explanation.— For the purposes of this sub-regulation, the expression 'Scheduled Commercial Bank' means any bank included in the Second Schedule to the Reserve Bank of India Act, 1934 (2 of 1934).]

(3) The portfolio manager shall transact in securities within the limitation placed by the client himself with regard to dealing in securities under the provisions of the Reserve Bank of India Act, 1934 (2 of 1934).

(4) The portfolio manager shall not derive any direct or indirect benefit out of the client's funds or securities.

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[43] Inserted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2002, w.e.f. 11-10-2002.
[44] Substituted by SEBI (Portfolio Managers) (Amendment) Regulations, 2012, w.e.f. 10-2-2012.
[45] Inserted, *ibid.*
[46] Inserted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2002, w.e.f. 11-10-2002.

[47][(4A) The portfolio manager shall not borrow funds or securities on behalf of the client.]

[48][(5) The portfolio manager shall not lend securities held on behalf of clients to a third person except as provided under these regulations.]

(6) The portfolio manager shall ensure proper and timely handling of complaints from his clients and take appropriate action immediately.

[49][**16. Investment of clients' moneys and management of clients' portfolio of securities**].—

(1) [50][(a) The money or securities accepted by the portfolio manager shall not be invested or managed by the portfolio manager except in terms of the agreement between the portfolio manager and the client.]

(b) Any renewal of portfolio fund on maturity of the initial period shall be deemed as a fresh placement [51][* * *].

[52][(2) Notwithstanding anything contained in the agreement referred to in regulation 14, the funds or securities can be withdrawn or taken back by

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47 Inserted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2002, w.e.f. 11-10-2002.

48 Substituted, *ibid*. Prior to substitution, sub-regulation (5) read as under:
"(5) The portfolio manager shall not pledge or give on loan securities held on behalf of clients to a third person without obtaining a written permission from his client."

49 Substituted for "Investment of clients' moneys'", by the SEBI (Portfolio Managers) (Amendment) Regulations, 2002, w.e.f. 11-10-2002.

50 Substituted, *ibid*. Prior to substitution, clause (a) read as under:
"(a) The portfolio manager shall not accept money or securities from his client for a period of less than one year:
Provided that in the case of placement of funds for portfolio management by the same client on more than one occasion or on a continual basis, each placement shall be for a minimum period of one year."

51 The words "and shall be for a minimum period of one year" omitted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2002, w.e.f. 11-10-2002.

52 Substituted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2002, w.e.f. 11-10-2002. Prior to substitution, sub-regulation (2) read as under:
"(2) Notwithstanding anything contained in the agreement between a portfolio manager and his client, referred to in regulation 14 hereof, the, portfolio funds can be withdrawn or taken back by portfolio client at his risk before the maturity date of the contract under the following circumstances, namely:-

the client before the maturity of the contract under the following circumstances, namely-

(a) voluntary or compulsory termination of portfolio management services by the portfolio manager or the client.

(b) suspension or cancellation of the certificate of registration of the portfolio manager by the Board.

(c) bankruptcy or liquidation of the portfolio manager.]

(3) The portfolio manager shall invest funds of his clients in money market instruments [53][or derivatives] or as specified in the contract:

[54][Provided that leveraging of portfolio shall not be permitted in respect of investment in derivatives:]

Provided [55][further] that the portfolio manager shall not deploy the clients' funds in bill discounting, badla financing or for the purpose of lending or placement with corporate or non-corporate bodies.

Explanation.— For the purposes of this sub-regulation: "money market instruments" includes commercial paper, trade bill, treasury bills, certificate of deposit and usance bills.

[56][(4) The portfolio manager shall not while dealing with clients' funds indulge in speculative transactions that is, he shall not enter into any

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(a) Voluntary or compulsory, termination of Portfolio management services by the Portfolio manager;
(b) suspension or termination of registration of Portfolio manager by the Board;
(c) bankruptcy or liquidation in case the portfolio manager is a body corporate;
(d) permanent disability, lunacy or insolvency in case the portfolio manager is an individual;"

53 Inserted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2002, w.e.f. 11-10-2002.

54 Inserted, *ibid*.

55 Inserted, *ibid*.

56 Substituted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2002, w.e.f. 11-10-2002. Prior to substitution, sub regulation (4) read as under:

transaction for purchase or sale of any security which is periodically or ultimately settled otherwise than by actual delivery or transfer of security except the transactions in derivatives.]

(5) The portfolio manager shall, ordinarily purchase or sell securities separately for each client. However, in the event of aggregation of purchases or sales for economy of scale, *inter se* allocation shall be done on a *pro rata* basis and at weighted average price of the day's transactions. The portfolio manager shall not keep any open position in respect of allocation of sales or purchases effected in a day.

(6) Any transaction of purchase or sale including that between the portfolio manager's own accounts and client's accounts or between two clients' accounts shall be at the prevailing market price.

(7) The portfolio manager shall segregate each clients' funds and portfolio of securities and keep them separately from his own funds and securities and be responsible for safekeeping of clients' funds and securities.

[57][(8) The portfolio manager shall not hold the listed securities [58][or unlisted securities], belonging to the portfolio account, in its own name on behalf of its clients either by virtue of contract with clients or otherwise:

"(4) The portfolio manager shall not while dealing with clients' funds indulge in speculative transactions, that is, he shall not enter into any transaction for purchase or sale of any security in which transaction is periodically or ultimately settled otherwise than by actual delivery or transfer of security. The portfolio manager may enter into transactions on behalf of client for the specific purpose of meeting margin requirements only if the contract so provides and the client is made aware of the attendant risks of such transactions. "

[57] Substituted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2008, w.e.f. 11-08-2008. Prior to substitution, sub-regulation (8) read as follows:

"(8) The portfolio manager may hold the securities belonging to the portfolio account in [its] own name on behalf of [its] clients only if the contract so provided and in such an event the record of the portfolio manager and [its] report to the client should clearly indicate that the securities are held by [it] on behalf of the portfolio account."

[The words "his and "him" were substituted by "its" and "it" respectively, by the SEBI (Portfolio Managers) (Amendment) Regulations, 2002, w.e.f. 11-10-2002.]

[58] Inserted by SEBI (Portfolio Managers) (Amendment) Regulations, 2012, w.e.f. 10-2-2012.

Provided that any portfolio manager holding the listed securities belonging to the portfolio account in its own name on behalf of its clients on the date of commencement of the Securities and Exchange Board of India (Portfolio Managers) (Amendment) Regulations, 2008 shall segregate each clients' listed securities and keep them separately within six months from such commencement:

Provided further that the Board may in the interest of investors or for the development of securities market, on an application made in this behalf by a portfolio manager with respect to any specific investment existing on the date of commencement of the Securities and Exchange Board of India (Portfolio Managers) (Amendment) Regulations, 2008, relax the strict enforcement of this regulation:]

[59][Provided further that the portfolio manager shall segregate each client's holding in unlisted securities in separate accounts in respect of investment by new clients and fresh investments by existing clients:

Provided further that existing investments in unlisted securities of clients, as on date of notification of Securities and Exchange Board of India (Portfolio Managers) (Amendment) Regulations, 2012 may continue as such till maturity of investment.]

[60][(9) The portfolio manager may, subject to authorization by the client in writing, participate in securities lending.]

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[59] Inserted by SEBI (Portfolio Managers) (Amendment) Regulations, 2012, w.e.f. 10-2-2012.

[60] Inserted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2002, w.e.f. 11-10-2002.

[61][**16A. Foreign Institutional Investor and sub-accounts availing portfolio management services**.— [62][Foreign portfolio investors] may avail of the services of a portfolio manager.]

[63][**16B. Appointment of custodian**.—(1) Every portfolio manager shall appoint a custodian in respect of securities managed or administered by it.

(2) Nothing contained in this regulation shall apply to a portfolio manager–

(a) who has total assets under management of value less than five hundred crore rupees; or

(b) who performs purely advisory functions.]

[64][(3) Every Portfolio Manager who deals in commodity derivatives shall appoint a custodian.]

17. Maintenance of books of accounts, records, etc.—(1) Every portfolio manager shall keep and maintain the following books of accounts, records and documents namely:-

(a) a copy of balance sheet at the end of each accounting period;

(b) a copy of the profit and loss account for each accounting period;

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[61] Substituted by the SEBI (Portfolio Managers) (Third Amendment) Regulations, 2006, w.e.f. 30-11-2006. Prior to substitution, regulation 16A inserted by SEBI (Portfolio Managers) (Amendment) Regulations, 2000, w.e,f. 22-02-2000 read as under:

"16A. That the portfolio manager may manage funds raised or collected or brought from outside India in accordance with Securities and Exchange Board of India (Foreign Institutional Investors) Regulations, 1995."

[62] Substituted for "Foreign institutional investors and sub-accounts registered with the Board" by the SEBI (Foreign Portfolio Investors) Regulations, 2014, w.e.f. 7-1-2014.

[63] Inserted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2006, w.e.f. 05-07-2006.

[64] Inserted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2019, w.e.f. 10-05-2019.

(c) a copy of the auditors report on the accounts for each accounting period;

(d) a statement of financial position and;

(e) records in support of every investment transaction or recommendation which will indicate the data, facts and opinion leading to that investment decision.

(2) Every portfolio manager shall intimate to the Board the place where the books of accounts, records and documents are maintained.

(3) Without prejudice to sub-regulation (1), every portfolio manager shall, after the end of each accounting period, furnish to the Board copies of the balance sheet, profit and loss account and such other documents as are mentioned in any of the regulations under this chapter for any other preceding five accounting years when required by the Board.

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18. Submission of half-yearly results.— Every portfolio manager shall furnish to the Board half-yearly-unaudited financial results when required by the Board with a view to monitor the capital adequacy of the portfolio manager.

19. 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 for a minimum period of five years.

20. Accounts and audit.—

(1) (a) The portfolio manager shall maintain separate client-wise accounts.

(b) The funds received from the clients, investments or disinvestments and all the credits to the account of the client like interest, dividend, bonus, or any other beneficial interest received on the investment and debits, for expenses, if any, shall be properly accounted for and details thereof shall be properly reflected in the client's account.

(c) The tax deducted at source as required under the provisions of the Income-Tax Act, 1961, (43 of 1961) shall be recorded in the portfolio account.

(2) The books of account will be audited yearly by qualified auditor to ensure that the portfolio manager has followed proper accounting methods and procedures and that the portfolio manager has performed his duties in accordance with the law. A certificate to this effect shall, if so specified, be submitted to the Board within six months of close of portfolio manager's accounting period.

[65][(3) The portfolio accounts of the portfolio manager shall be audited annually by an independent chartered accountant and a copy of the certificate issued by the chartered accountant shall be given to the client.

(4) The client may appoint a chartered accountant to audit the books and accounts of the portfolio manager relating to his transactions and the portfolio manager shall co-operate with such chartered accountant in course of the audit.]

21. Reports to be furnished to the client.—(1) The portfolio manager shall furnish periodically a report to the client, as agreed in the contract, but not

[65] Inserted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2002, w.e.f. 11-10-2002.

exceeding a period of six months [66][and as and when required by the client] and such report shall contain the following details, namely:-

(a) the composition and the value of the portfolio, description of security [67][and goods], number of securities, value of each security held in the portfolio [68][units of goods, value of goods], cash balance and aggregate value of the portfolio as on the date of report;

(b) transactions undertaken during the period of report including date of transaction and details of purchases and sales;

(c) beneficial interest received during that period in respect of interest, dividend, bonus shares, rights shares and debentures;

(d) expenses incurred in managing the portfolio of the client;

(e) details of risk foreseen by the portfolio manager and the risk relating to the securities recommended by the portfolio manager for investment or disinvestment.

[69][(1A) The report referred to in sub-regulation (1) may be made available on the website of the portfolio manager with restricted access to each client.]

(2) The portfolio manager shall [70][in terms of the agreement with the client] also furnish to the client documents and information relating only to the management of a portfolio.

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[66] Inserted, *ibid*.
[67] Inserted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2019, w.e.f. 10-05-2019.
[68] Inserted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2019, w.e.f. 10-05-2019.
[69] Inserted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2002, w.e.f. 11-10-2002.
[70] Inserted, *ibid*.

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(3) On termination of the contract, the portfolio manager shall give a detailed statement of accounts to the client and settle the account with the client as agreed in the contract.

[71][(4) The client shall have the right to obtain details of his portfolio from the portfolio managers.]

22. Report on steps taken on Auditor's report.—Every portfolio manager shall within two months from the date of the auditors report take steps to rectify the deficiencies, made out in the auditors report.

23. Disclosures to the Board.— A portfolio manager shall disclose to the Board as and when required the following information namely:-

(i) particulars regarding the management of a portfolio;

(ii) any change in the information or particulars previously furnished, which have a bearing on the certificate granted to him;

(iii) the names of the clients whose portfolio he has managed;

(iv) particulars relating to the capital adequacy requirement as specified in regulation 7.

[72][**23A. Appointment of compliance officer**.—(1) Every portfolio manager shall appoint a compliance officer who shall be responsible for monitoring the compliance of the Act, rules and regulations, notifications,

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[71] Substituted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2002, w.e.f. 11-10-2002. Prior to substitution, sub regulation (4) read as under:

"(4) In the event of any dispute between the portfolio manager and his clients, the client shall have the right to obtain details of his portfolio from the portfolio manager."

[72] Inserted by the SEBI (Investment Advice by Intermediaries) (Amendment) Regulations, 2001, w.e.f. 29-05-2001.

guidelines, instructions etc., issued by the Board or the Central Government and for redressal of investors' grievances.

(2) The compliance officer shall immediately and independently report to the Board any non-compliance observed by him.]

CHAPTER IV

INSPECTION AND DISCIPLINARY PROCEEDINGS

24. Right of inspection by the Board.—(1) The Board may appoint one or more persons as inspecting authority to undertake the inspection of the books of account, records and documents of the portfolio manager for any of the purposes specified in sub-regulation (2).

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(2) The purposes referred to in sub-regulation (1) may be as follows, namely:-

(a) to ensure that the books of account are being maintained in the manner required;

(b) that the provisions of the Act, rules and regulations are being complied with;

(c) to investigate into the complaints received from investors, other portfolio managers or any other person on any matter having a bearing on the activities of the portfolio manager; and

(d) to investigate *suo motu* in the interest of securities business or investors' interest into the affairs of the portfolio manager.

25. Notice before inspection.—(1) Before undertaking an inspection under regulation 24, the Board shall give a reasonable notice to the portfolio manager, for that purpose.

(2) Notwithstanding anything contained in sub-regulation (1), where the Board is satisfied that in the interest of the investors no such notice should be given, it may by an order in writing direct that the inspection of the affairs of the portfolio manager be taken up without such notice.

(3) During the course of inspection the portfolio manager against whom an inspection is being carried out shall be bound to discharge his obligations as provided under regulation 26.

26. Obligations of Portfolio Manager on inspection.—(1) It shall be the duty of every director, proprietor, partner, officer and employee of the portfolio manager who is being inspected to produce to the inspecting authority such books, accounts and other documents in his custody or control and furnish him with the statements and information relating to his activities as a portfolio manager within such time as the inspecting authority may require.

(2) The portfolio manager shall allow the inspecting authority to have a reasonable access to the premises occupied by such portfolio manager or by any other person, on his behalf and also extend reasonable facility for examining any books, records, documents and computer data in the possession of the portfolio manager or any such other person and also provide copies of documents or other material which in the opinion of the inspecting authority are relevant for the purposes of the inspection.

(3) The inspecting authority shall in the course of inspection, be entitled to examine or record statements of any principal officer, director, partner, proprietor and employee of the portfolio manager.

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(4) It shall be the duty of every director, proprietor, partner, officer or employee of the portfolio manager to give to the inspecting authority all assistance in connection with the inspection which the portfolio manager may reasonably be expected to give.

27. Submission of report to the Board.— The inspecting authority shall, as soon as may be possible, submit an inspection report to the Board.

[73][**28. Action on inspection or investigation report**.— The Board or the Chairman shall after consideration of the inspection or investigation report take such action as the Board or Chairman may deem fit and appropriate including action under [74][Chapter V of the Securities and Exchange Board of India (Intermediaries) Regulations, 2002.]]

29. Appointment of Auditor.— The Board may appoint a qualified auditor to investigate into the books of account or the affairs of the portfolio manager:

Provided that the auditor so appointed shall have the same powers of the inspecting authority as are mentioned in regulation 24 and the obligation of the portfolio manager and his employees in regulation 26 shall be applicable to the investigation under this regulation.

Explanation.— For the purposes of sub-regulation (2) of regulation 20 and under this regulation, the expression "qualified auditor" shall have the

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[73] Substituted by the SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002, w.e.f. 27-09-2002. Prior to substitution, regulation 28 read as under:

"*28. Communication of findings etc. to the portfolio manager.*—(1) The Board shall after consideration of the inspection report communicate the findings to the portfolio manager to give him an opportunity of being heard before any action is being taken by the Board on the findings of the inspecting authority.

(2) On receipt of the application, if any, from the portfolio manager, the Board may call upon the portfolio manager to take such measures as the Board may deem fit in the interest of the securities market and for due compliance with the provisions of the Act, rules and regulations."

[74] Substituted for "the Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002" by the SEBI (Intermediaries) Regulations, 2008, w.e.f. 26-05-2008.

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same meaning as given to it in section 226 of the Companies Act, 1956 (1 of 1956).

CHAPTER V

PROCEDURE FOR ACTION IN CASE OF DEFAULT

30. [75][**Liability for action in case of default**.— A portfolio manager who contravenes any of the provisions of the Act, Rules or Regulations framed thereunder shall be liable for one or more action specified therein including the action under Chapter V of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008.]

31. to **38.** [76]**[* * *]**

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75 Substituted by the SEBI (Intermediaries) Regulations, 2008, w.e.f. 26-05-2008. Prior to substitution, regulation 30 as substituted by the SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002, w.e.f. 27-09-2002, read as under:

"*30. Liability for action in case of default*.— (1) A portfolio manager who-

(a) fails to comply with any conditions subject to which certificate has been granted;

(b) contravenes any of the provisions of the Act, rules or regulations;

shall be dealt with in the manner provided under the Securities and Exchange Board of India (Procedure for Holding Enquiry by the Enquiry Officer and Imposing Penalty) Regulations, 2002.

76 Omitted by the Securities (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002, w.e.f. 27-09-2002. Prior to their omission, regulations 31 to 38 read as under:

"31. *Suspension of registration*.—(1) A penalty of suspension of registration of a portfolio manager may be imposed where -

(i) the portfolio manager violates the provisions of the Act, rules or regulations;

(ii) the portfolio manager -

(a) fails to furnish any information relating to his activity as portfolio manager as required by the Board;

(b) furnishes wrong or false information;

(c) does not submit periodical returns as required by the Board;

(d) does not co-operate in any enquiry conducted by the Board;

(iii) the portfolio manager fails to resolve the complaints of the investors or fails to give a satisfactory reply to the Board in this behalf;

(iv) the portfolio manager indulges in manipulating or price rigging or cornering activities;

(v) the portfolio manager is guilty of misconduct or improper or unbusinesslike or unprofessional conduct which is not in accordance with the Code of Conduct specified in Schedule III;

(vi) the portfolio manager fails to maintain the capital adequacy requirement in accordance with the provisions of regulation 7;

(vii) the portfolio manager fails to pay the fees;

(viii) the portfolio manager violates the conditions of registration;

(ix) the portfolio manager does not carry out his obligations as specified in the regulation.

32. Cancellation of registration.—A penalty of cancellation of registration of a portfolio manager may be imposed where:-

(i) the portfolio manager indulges in deliberate manipulation or price rigging or cornering activities affecting the securities market and the investors interest;

(ii) the financial position of the portfolio manager deteriorates to such an extent that the Board is of the opinion that his continuance as portfolio manager is not in the interest of investors;

(iii) the portfolio manager is guilty of fraud, or is convicted of a criminal offence;

(iv) the portfolio manager is guilty of repeated defaults of the nature mentioned in regulation 31 provided that the Board furnishes the reasons for cancellation in writing.

33. Manner of making order of suspension and cancellation.—No order of penalty of suspension or cancellation, as the case may be, shall be imposed except after holding an enquiry in accordance with the procedure specified in regulation 34.

34. Manner of holding enquiry before suspension or cancellation.—(1) For the purpose of holding an enquiry under regulation 33, the Board may appoint an enquiry officer.

(2) The enquiry officer shall issue to the portfolio manager a notice at the registered office or the principal place of business of the portfolio manager.

(3) The portfolio manager may, within thirty days from the date of receipt of such notice, furnish to the enquiry officer a reply together with copies of documentary or other evidence relied on by him or sought by the Board from the portfolio manager.

(4) The enquiry officer shall, give a reasonable opportunity of hearing to the portfolio manager to enable him to make submissions in support of his reply made under sub-regulation (3).

(5) Before the enquiry officer, the portfolio manager may either appear in person or through any person duly authorised by the portfolio manager:

Provided that no lawyer or advocate shall be permitted to represent the portfolio manager at the enquiry:

Provided further that where a lawyer or an advocate has been appointed by the Board as a presenting officer under sub- regulation (6), it shall be lawful for the portfolio manager to present its case through a lawyer or advocate.

(6) If it is considered necessary, the enquiry officer may ask the Board to appoint a presenting officer to present its case.

(7) The enquiry officer shall, after taking into account all relevant facts and submissions made by the portfolio manager, submit a report to the Board and recommend the penalty to be imposed as also the grounds on the basis of which the proposed penalty is justified.

35. Show-cause notice and order.—(1) On receipt of the report from the enquiry officer, the Board shall consider the same and issue a show-cause notice as to why the penalty as proposed by the enquiry officer should not be imposed.

(2) The portfolio manager shall within twenty-one days of the date of the receipt of the show-cause notice send a reply to the Board.

(3) The Board after considering the reply to the show-cause notice, if received, shall as soon as possible but not later than thirty days from the receipt of the reply, if any, pass such order as it deems fit.

(4) Every order passed under sub-regulation (3) shall be self-contained and give reasons for the conclusions stated therein including justification of the penalty imposed by that order.

(5) The Board shall send a copy of the order under sub- regulation (3) to the portfolio manager.

36. Effect of suspension and cancellation of registration of portfolio manager.—(1) On and from the date of the suspension of the portfolio manager he shall cease to carry on any activity as a portfolio manager during the period of suspension.

(2) On and from the date of cancellation, the portfolio manager shall with immediate effect cease to carry on any activity as a portfolio manager.

37. Publication of order of suspension.— The order of suspension or cancellation of certificate passed under sub-regulation (3) of regulation 35 shall be published in at least two daily newspapers by the Board.

38. Appeal to the Securities Appellate Tribunal.— Any person aggrieved by an order of the Board made, on and after the commencement of the Securities Laws (Second Amendment) Act, 1999, (i.e., after 16th December 1999), under these regulations may prefer an appeal to a Securities Appellate Tribunal having jurisdiction in the matter.

[Regulation 38 was substituted by the SEBI (Appeal to Securities Appellate Tribunal) (Amendment) Regulations, 2000, w.e.f. 28-3-2000 for "Any person aggrieved by an order of the Board may prefer an appeal to the Government."]

[77][**CHAPTER VI**

MISCELLANEOUS

39. Power of the Board to issue clarifications.— In order to remove any difficulties in respect of the application or interpretation of these regulations, the Board may issue clarifications or guidelines in the form of circulars.]

SCHEDULE I

FORMS

FORM A

Securities and Exchange Board of India (Portfolio Managers) Regulations, 1993

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[78][Application for grant of certificate of registration]

Name of Applicant: _____

Name of Person to Contact: _____

Designation: _____

Telephone No: _____

[77] Inserted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2002, w.e.f. 11-10-2002.

[78] Substituted for the words “Application for grant of certificate/renewal of certificate” by the Securities and Exchange Board of India (Change In Conditions Of Registration Of Certain Intermediaries) (Amendment) Regulations, 2016 w.e.f. 08-12-2016.

Instruction:

1. Applicants must submit a completed application form together with appropriate supporting documents to the Board.

2. It is important that this application form should be filled in accordance with the regulations.

3. Application for registration will be considered provided it is complete in all respects.

4. Answers must be typed/ printed.

5. Information which needs to be supplied in more details may be given on separate sheets which should be attached to the application form.

6. All signatures must be original.

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PART: I GENERAL INFORMATION

1.0 PARTICULARS OF THE APPLICANT

1.1 Name of the Applicant:

1.2 Address - Principal place of business/registered office:

Pin code: _____ Telephone No: _____

Telex No: _____ Fax No: _____

1.3 Address for Correspondence:

Pin code: _____ Telephone No: _____

Telex No: _____ Fax No: _____

Address of Branch Offices (in India & Abroad):

1.4 Application to Board for any other intermediary activity: _____

2.0 ORGANISATION STRUCTURE

(Organisation Chart separately showing functional responsibilities of portfolio management activities to be enclosed)

2.1 Objectives: In brief.
(Memorandum and Articles of Association to be enclosed).

2.2 Date and Place of Incorporation/Establishment:

Day Month Year Place

2.3 Status of the Applicant: (e.g. limited company-Private/Public, unlimited company, [79][***] others. If listed, names of the stock exchanges and latest share price: to be given.)

2.4 Organisation Chart: General Organisation & specific Activity.
(i.e. Applied for registration) also state the functional responsibility.

2.5 Particulars of all Directors [80][***] and key management personnels:

[Name; Qualification; Experience; (General and specific Intermediaries activity); Ownership details; (Date of Appointment) Other directorship; (Name & Date of Appointment); Previous positions held.]

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[79] Words and commas "partnership, proprietary," omitted by SEBI (Portfolio Managers) (Amendment) Regulations, 2008, w.e.f. 11-08-2008.

[80] Words and marks "/partners/proprietor" omitted by SEBI (Portfolio Managers) (Amendment) Regulations, 2008, w.e.f. 11-08-2008.

2.6 Number of employees

(General and for Specific Intermediaries activity)

2.7 Name and activities of associate companies/ concerns

Name of company /firm	*Address/ phone numbers*	*Type of activity handled*	*Ownership details*	*Nature / Quantum of financial dealing*	*Nature of interest of promoter /director*	*Nature of interest of applicant company*

2.8 List of major shareholders (holding 5% or more voting shares)

Name; Share holding pattern i.e., no of share to its % to total capital)

3.0 DETAILS OF INFRASTRUCTURAL FACILITIES

3.1 Office Space

3.2 Office Equipment

3.3 Furniture & Fixtures

3.4 Communication Facilities

3.5 Data Processing Capacity

(a) In-house:

(b) Others:

3.6 Computer facility:

(a) Hardware configuration

(b) Software Environment

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4.0 BUSINESS PLAN (FOR THREE YEARS)

(a) History, Major events and present activities

(b) Proposed business plan & means of achieving the same.

(c) Projected Profitability (Next three years)
(Physical targets, *modus operandi* to achieve targets, Resultant Income)

5.0 FINANCIAL INFORMATION

5.1 Capital Structure (Rs. in lakhs)

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	Year prior to the preceding year of current year	*Preceding year*	*Current year*
(a) Paid-up capital			
(b) Free reserves (excluding evaluation reserves)			
(c) Total (a) + (b)			

Note: [81][* * *}

5.2 Deployment of Resources (Rs. in lakhs)

[81] Notes omitted by SEBI (Portfolio Managers) (Amendment) Regulations, 2008, w.e.f. 11-08-2008. Prior to their omission, notes read as under:
"1. In case of partnership or proprietary concerns, please indicate capital minus drawings.
2. In case of partnership or proprietary concerns, please indicate the financial position, means and"

	Year prior to the preceding year of current year	*Preceding year*	*Current year*
(a) Fixed Assets			
(b) Plant & Machinery and office equipment			
(c) Investments (Details should be given separately)			
(d) Others			

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Major Sources of Income: (Rs. in lakhs)

	Year prior to the preceding year of current year	*Preceding year*	*current year*

* Fees charged as % of issue

5.4 Net Profit (Rs. in lakhs)

	Year prior to the preceding year of current year	*Preceding year*	*current year*

5.5 Name and Address of the Principal Bankers

5.6 Name and Address of the Auditors

6.0 OTHER INFORMATION

6.1 Details of all settled and pending disputes:

Nature of dispute	*Name of the party*	*Pending/settle*

6.2 Indictment of involvement in any economic offences in the last three years.

6.3 Indicate dealing/ trading with any Intermediary who has defaulted with or suspended by any stock exchange authorities or any other authorities.

6.4 Any other information considered relevant to the nature of services rendered by the company.

6.5 Names of two references from bankers (For applicants other than financial institutions & banking companies)

PART II SPECIFIC INFORMATION

7.0 BUSINESS INFORMATION

7.1 Indicate type of activity carried on/ proposed to be carried on.

7.2 Indicate the facilities for making decision on portfolio investment.

7.3 [82][* * *]

[82] Omitted by SEBI (Portfolio Managers) (Amendment) Regulations, 2008, w.e.f. 11-08-2008. Prior to omission, clause 7.3 read as under:

"7.3 Describe portfolio management schemes floated during last years/ proposed to float during next year. (Enclose a copy of typical contract entered with the client for Portfolio Management Services)"

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7.4 Enclose a copy of list of approved share brokers, involved for Portfolio Management [83][* * *] activities and state whether any of them were suspended/had defaulted with any Stock Exchange authority.]

7.5 Describe Accounting system followed/to be followed for Portfolio Management Services [84][* * *].

7.6 Indicate various research & database facilities provided.

8.0 EXPERIENCE

8.1 Experience in Portfolio management activities. Indicate period also.

8.2 Experience in other financial services rendered: (Period, Area and Date of Commencement of Activity).

8.3 Business handled during the last year:

(a) Portfolio Management

(DISCRETIONARY NATURE)	*For Resident/Non-Resident*	*Individual Client*	*Corporate Client*
1. Types of services offered			
2. No. of portfolio clients			
3. Total amount of funds managed			

[83] The word "scheme" omitted by SEBI (Portfolio Managers) (Amendment) Regulations, 2008, w.e.f. 11-08-2008.

[84] The words and brackets "(Clientwise and Schemewise)" omitted, *ibid*.

4. Average size of portfolio			
5. Average return to the client			
6. [85][* * *]			

(NON-DISCRETIONARY NATURE)	*FOR Resident/Non-Resident*	*Individual Client:*	*Corporate Client:*
1. Types of services offered			
2. Number of portfolio clients			
3. Total amount of funds managed			
4. Average size of portfolio			
5. Average return to the client			
6. [86][* * *]			

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(b) Only Portfolio Advisory Services

(Indicate for both Resident/Non-resident clients)

(c) List of Clients (Corporate clients only)

Name	*Amount of portfolio Fund managed*	*Services Rendered*

[85] The words "Average period of Portfolio Management Schemes" omitted by SEBI (Portfolio Managers) (Amendment) Regulations, 2008, w.e.f. 11-08-2008.

[86] The words "Average period of Portfolio Management Schemes" omitted, *ibid*.

DECLARATION

[87]*[This declaration must be signed by two directors,]*

I/We hereby, apply for Registration. I/We warrant that I/We have truthfully and fully answered the questions above and provided all the information which might reasonably be considered relevant for the purposes of my/our registration.

For and on behalf of

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_____

(Name of Applicant)

_____ _____

Director/ [88][* * *] Director/ [89][* * *]

_____ _____

Name in Block Letters Name in Block Letters

Place: Place:

Date: Date:

---

87 Substituted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2008, w.e.f. 11-08-2008. Prior to substitution, the it read as under:

"This Declaration must be signed by two Directors, Two Partners or the Sole Proprietor, as the case may be".

88 The words and marks "/Partner or Sole Proprietor" omitted by SEBI (Portfolio Managers) (Amendment) Regulations, 2008, w.e.f. 11-08-2008.

89 The words and marks "/Partner or Sole Proprietor" omitted, *ibid*.

FORM B

Securities and Exchange Board of India (Portfolio Managers) Regulations, 1993

[Regulation 8]

Certificate of Registration

I. In exercise of the powers conferred by sub-section (1) of section 12 of the Securities and Exchange Board of India Act, 1992, read with the regulations made thereunder for the portfolio managers the Board hereby grants a certificate of registration to _____ as a portfolio manager subject to the conditions in the rules and in accordance with the regulations.

II. Registration Code for the portfolio manager is PM / /

III. [90][This certificate of registration shall be valid till it is suspended or cancelled by the Board.]

Place:

Date: By Order

For and on behalf of

Securities and Exchange Board of India

Authorised signatory

[91][**FORM C**

[90] Substituted for the words "Unless renewed, the certificate of registration is valid from _____ to _____." by the Securities and Exchange Board of India (Change In Conditions Of Registration Of Certain Intermediaries) (Amendment) Regulations, 2016 w.e.f. 08-12-2016.

[91] Inserted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2002, w.e.f. 11-10-2002.

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Securities and Exchange Board of India (Portfolio Managers) Regulations, 1993

[Regulation 14]

_____

(Name of the Portfolio Manager)

(Address of the Portfolio Manager (including phone numbers, fax, email etc.)

We confirm that:

i) the Disclosure Document forwarded to the Board is in accordance with the SEBI (Portfolio Managers) Regulations, 1993 and the guidelines and directives issued by the Board from time to time;

ii) the disclosures made in the document are true, fair and adequate to enable the investors to make a well informed decision regarding entrusting the management of the portfolio to us ***/*** investment in the Portfolio Management [92][* * *];

iii) the Disclosure Document has been duly certified by an independent chartered accountant (Indicate name, address, phone number and registration number of the chartered accountant) on _____ (date).
(Enclose a copy of the chartered accountants' certificate to the effect that the disclosures made in the document are true, fair and adequate to enable the investors to make a well informed decision)

Date: Signature of the Principal Officer

Place: Name and address of the Principal Officer]

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[92] The word “Scheme” omitted by SEBI (Portfolio Managers) (Amendment) Regulations, 2008, w.e.f. 11-08-2008.

SCHEDULE II

Securities and Exchange Board of India (Portfolio Managers) Regulations, 1993

[Regulation 12]

FEES

[93][1. Every portfolio manager shall pay a non-refundable fee of one lakh rupees along with the application for grant [94][***] of certificate of registration.]

[95][(1A) Every portfolio manager shall pay a sum of [96][ten lakh rupees] as registration fees at the time of the grant of certificate by the Board.]

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[93] Substituted by the SEBI (Portfolio Managers) (Second Amendment) Regulations, 2006, w.e.f. 7-09-2006. Prior to substitution, paragraph 1, inserted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2004, w.e.f. 27-05-2004 read as under:

"1. Every portfolio manager shall pay a sum of Rs. 25,000/- as application fees along with the application for grant of certificate of registration."

Prior to such substitution, paragraph 1, 2, 3 and 4 were substituted by the SEBI (Portfolio Managers) (Amendment) Regulations, 1999, w.e.f. 30-09-1999 for the following:

"1. Every Portfolio Manager shall subject to paragraphs 3 and 4 of this Schedule, pay a sum of Rs 2.50 lakhs every year for the first two years and thereafter a sum of Rs 1 lakh for the third year.

2. Every Portfolio Manager shall to keep his registration in force, pay renewal fee of Rs.75, 000/- per annum from the fourth year from the date of initial registration.

3. Fee specified in paragraphs (1) and (2) above shall be paid in the following manner –

a) First installment is to be paid within 15 days from the date of intimation from the Board under regulation 8.

b) Subsequent installments including the renewal fee to be paid on or before expiry of 12 months of each year of registration beginning from date of grant of such registration.

4. The fees specified in paragraphs (1) and (2) above, shall be payable by [a cheque or] draft in favor of "Securities and Exchange Board of India" at Bombay [or at the respective regional office.] [The words "a cheque or" omitted by the Securities and Exchange Board of India (Payment of Fees) Amendment Regulations, 1995, w.e.f. 28-11-95]. The words "or at the respective regional office" inserted by the Securities and Exchange Board of India (Payment of Fees) Amendment Regulations, 1995 w.e.f. 28-11-95.

[94] The words "or renewal" omitted by the Securities and Exchange Board of India (Change In Conditions Of Registration Of Certain Intermediaries) (Amendment) Regulations, 2016 w.e.f. 08-12-2016.

[95] Inserted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2004, w.e.f. 27-05-2004.

[96] Substituted for "Rs.5 lakhs" by the SEBI (Portfolio Managers) (Second Amendment) Regulations, 2006, w.e.f. 7-09-2006

[97][2. A portfolio manager who has been granted a certificate of registration, to keep its registration in force, shall pay fee of five lakh rupees every three years , from the date of grant of certificate of registration or from the date of grant of certificate of registration granted prior to the commencement of the Securities and Exchange Board of India (Change in Conditions of Registration of Certain Intermediaries) (Amendment) Regulations, 2016, as the case may be, within three months before expiry of the block period for which fee has been paid.]

3. (a) [98][The fee referred to in paragraph (1A) shall be paid by the portfolio manager within fifteen days from the date of receipt of intimation from the Board under regulation 8 by way of demand draft in favour of 'Securities and Exchange Board of India' payable at Mumbai or at respective regional or local office or by way of by way of direct credit in the bank account through NEFT/RTGS/IMPS or any other mode allowed by RBI.]

(b) [99][***]

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[97] Substituted for "Every portfolio manager shall pay a renewal fee of five lakh rupees upon grant of renewal" by the Securities and Exchange Board of India (Change In Conditions Of Registration Of Certain Intermediaries) (Amendment) Regulations, 2016 w.e.f. 08-12-2016.
Prior to above, Paragraph 2 was previously substituted by the SEBI (Portfolio Managers) (Second Amendment) Regulations, 2006, w.e.f. 7-09-2006. Prior to substitution, paragraph 2 inserted by the SEBI (Portfolio Managers) (Amendment) Regulations, 1999, w.e.f. 30-09-1999 read as under:
"Every portfolio manager to keep his registration in force shall pay renewal fee of Rs. 2.5 lakhs every three years from the fourth year from the date of initial registration."

[98] Substituted by the Securities and Exchange Board of India (Change In Conditions Of Registration Of Certain Intermediaries) (Amendment) Regulations, 2016 w.e.f. 08-12-2016. Prior to substitution, clause (a) read as under:
"The fee referred to in paragraph (1) shall be paid by the portfolio manger within fifteen days from the date of receipt of intimation from the Board under regulation 8."

[99] Omitted by the Securities and Exchange Board of India (Change In Conditions Of Registration Of Certain Intermediaries) (Amendment) Regulations, 2016 w.e.f. 08-12-2016. Prior to omission, clause (b) read as under:
"(b) The fee referred to in paragraph (2), shall be paid by the portfolio manager within fifteen days from the date of receipt of intimation from the Board [99][under sub-regulation (3) of regulation 9.]"

- the words "under sub-regulation (3) of regulation 9" were substituted for the words "disposing of the application for renewal made under sub-regulation (1) of regulation 9", by the SEBI (Portfolio Managers (Second Amendment) Regulations), 2006, w.e.f. 7-09-2006.

4. The fees specified in paragraphs (1) and (2) above, shall be payable by the portfolio manager by a demand draft in favour of "Securities and Exchange Board of India" payable at Mumbai or at the respective regional office [100][by way of direct credit in the bank account through NEFT/RTGS/IMPS or any other mode allowed by RBI].]

SCHEDULE III

Securities and Exchange Board of India (Portfolio Managers) Regulations, 1993

[Regulation 13]

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CODE OF CONDUCT- PORTFOLIO MANAGER

1. A portfolio manager shall, in the conduct of his business, observe high standards of integrity and fairness in all his dealings with his clients and other portfolio managers.

2. The money received by a portfolio manager from a client for an investment purpose should be deployed by the portfolio manager as soon as possible for that purpose and money due and payable to a client should be paid forthwith.

3. A portfolio manager shall render at all times high standards of service, exercise due diligence, ensure proper care and exercise independent professional judgment. The portfolio manager shall either avoid any conflict of interest in his investment or disinvestment decision, or where any conflict of interest arises, ensure fair treatment to all his customers. He shall disclose to the clients, possible source of conflict of duties and

[100] Inserted by the SEBI (Payment of Fees and Mode of Payment) (Amendment) Regulations, 2017, w.e.f. 6-3-2017.

interests, while providing unbiased services. A portfolio manager shall not place his interest above those of his clients.

4. A portfolio manager shall not make any statement or become privy to any act, practice or unfair competition, which is likely to be harmful to the interests of other portfolio managers or is likely to place such other portfolio managers in a disadvantageous position in relation to the portfolio manager himself, while competing for or executing any assignment.

5. A portfolio manager shall not make any exaggerated statement, whether oral or written, to the client either about the qualification or the capability to render certain services or his achievements in regard to services rendered to other clients.

6. At the time of entering into a contract, the portfolio manager shall obtain in writing from the client, his interest in various corporate bodies which enables him to obtain unpublished price-sensitive information of the body corporate.

7. A portfolio manager shall not disclose to any clients, or press any confidential information about his client, which has come to his knowledge.

8. The portfolio manager shall where necessary and in the interest of the client take adequate steps for registration of the transfer of the clients' securities and for claiming and receiving dividends, interest payments and other rights accruing to the client. He shall also take necessary action for conversion of securities and subscription/renunciation of/or rights in accordance with the clients' instruction.

9. A portfolio manager shall endeavor to -

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(a) ensure that the investors are provided with true and adequate information without making any misguiding or exaggerated claims and are made aware of attendant risks before any investment decision is taken by them;

(b) render the best possible advice to the client having regard to the client's needs and the environment, and his own professional skills;

(c) ensure that all professional dealings are effected in a prompt, efficient and cost effective manner.

10. (1) A portfolio manager shall not be a party to -

(a) creation of false market in securities;

(b) price rigging or manipulation of securities;

(c) passing of price sensitive information to brokers, members of the stock exchanges and any other intermediaries in the capital market or take any other action which is prejudicial to the interest of the investors.

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(2) No portfolio manager or any of its directors, partners or manager shall either on their respective accounts or through their associates or family members, relatives enter into any transaction in securities of companies on the basis of unpublished price sensitive information obtained by them during the course of any professional assignment.

[101][11.(a) A portfolio manager or any his employees shall not render, directly or indirectly any investment advice about any security in the publicly accessible media, whether real-time or non-real-time, unless a disclosure of his long or short position in the said security has been made, while rendering such advice.

[101] Inserted by the SEBI (Investment Advice by Intermediaries) (Amendment) Regulations, 2001, w.e.f. 29-5-2001.

(b) In case an employee of the portfolio manager is rendering such advice, he shall also disclose the interest of his dependent family members and the employer including their long or short position in the said security, while rendering such advice.]

[102][12. (a)The portfolio manager shall abide by the Act, and the Rules, Regulations made thereunder and the Guidelines / Schemes issued by the Board.

(b) The portfolio manager shall comply with the model code of conduct specified in the SEBI (Prohibition of Insider Trading) Regulations, 1992.

(c) The portfolio manager shall not use his status as any other registered intermediary to unduly influence the investment decision of the clients while rendering portfolio management services.]

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[103][*SCHEDULE IV*

CONTENTS OF AGREEMENT BETWEEN THE PORTFOLIO MANAGER AND HIS CLIENTS

[Regulation 14]

The following shall be mentioned in the agreement -

1. Appointment of portfolio manager.

2. Scope of services to be provided by the portfolio manager subject to the activities permitted under SEBI (Portfolio Managers) Regulations,

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[102] Inserted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2002, w.e.f. 11-10-2002.

[103] *ibid.*

1993, viz, advisory, investment management, custody of securities, keeping track of corporate benefits associated with the securities. The Portfolio Manager shall act in a fiduciary capacity and as a trustee and agent of the clients' account.

3. Functions, obligations, duties and responsibilities (as discretionary and non discretionary to be given separately) with specific provisions regarding instructions for non discretionary portfolio manager, *inter alia* -

   (i) terms in compliance with the Act, SEBI (Portfolio Managers) Regulations,1993, rules, regulations, guidelines made under the Act and any other laws/rules/regulations / guidelines etc.;
   (ii) providing reports to clients;
   (iii) maintenance of client wise transaction and related books of accounts;
   (iv) provisions regarding audit of accounts as required under the SEBI (Portfolio Managers) Regulations, 1993;
   (v) settlement of accounts and procedure therefore including the provisions for payment on maturity or early termination of the contract.

4. Investment objectives and guidelines -

   (i) Types of securities in which investment would be made specifying restrictions, if any.
   (ii) Particulars regarding amount, period of management, repayment or withdrawal.
   (iii) Taxation aspects such as Tax Deducted at Source etc., if any.
   (iv) Condition that the portfolio manager shall not lend the securities of the client unless authorized by him in writing.

5. Risk factors

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(i) A detailed statement of risks associated with each type of investment including the standard risks associated with each type of investment.

(ii) [104][* * *]

6. Period of agreement- minimum period if any, and provision for renewal, if any.

7. Conditions, under which agreement may be altered, terminated and implications thereof, such as settlement of amounts invested, repayment obligations etc.

(i) Voluntary/mandatory termination by the portfolio manager;
(ii) Voluntary/mandatory termination by the client;
(iii) Suspension by the Board or other regulatory authority.

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8. Maintenance of Accounts- Maintenance of accounts separately in the name of the client as are necessary to account for the assets and any additions, income, receipts and disbursements in connection therewith, as provided under SEBI (Portfolio Managers) Regulations, 1993.

9. Change in the quantum of funds to be managed- The conditions under which the client may withdraw cash or securities from the portfolio account or bring in additional cash to be managed as per the terms and conditions that apply. The portfolio manager shall not change any terms of the agreement without prior consent of the client**.**

10. Access to information- (Subject to the provisions of SEBI (Portfolio Managers)Regulations,1993) **-** Provisions enabling client to get the

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[104] Omitted by SEBI (Portfolio Managers) (Amendment) Regulations, 2008, w.e.f. 11-08-2008. Prior to omission, clause 7.3 read as under:

"Risk factor specified to the scheme as well as those attendant to specific investment policies and objective of the scheme".

books of accounts of the portfolio manager relating to his transactions audited by a chartered accountant appointed by him and permitting the client an access to relevant and material documents of portfolio manager, provisions listing the documents for inspection along with timings for such inspection, furnishing of reports to the client subject to furnishing at least once in six months and the reports to be made available on the web site of the portfolio manager with restricted access to each client and other rights of clients etc. The provision that the statements / documents / report furnished by the portfolio manager to the client present a true and fair picture of the actual transactions.

11. Terms of Fees- The quantum and manner of payment of fees and charges for each activity for which services are rendered by the portfolio manager directly or indirectly (where such service is outsourced) such as investment management, advisory, transfer, registration and transaction costs with specific references to brokerage costs, custody charges, cost related to furnishing regular communication, account statement, miscellaneous expenses (individual expenses in excess of 5% to be indicated separately) etc. The provision that the portfolio manager shall take prior permission from the client in this respect.

12. Billing- Periodicity of billing, whether payment to be made in advance, manner of payment of fees, whether setting off against the account etc., type of documents evidencing receipt of payment of fees.

13. Liability of portfolio manager- Liability of portfolio manager in connection with recommendations made, to cover errors of judgment, negligence, willful misfeasance in connection with discharge of duties, acts of other intermediaries, brokers, custodians etc.

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14. Liability of client- restricting the liability of the client to the extent of his investment.

15. Death or Disability- providing for continuation/termination of the agreement in event of client's death/disability, succession, nomination, representation etc. to be incorporated.

16. Assignment- Conditions for assignment of the agreement by client.

17. Governing Law- The law/jurisdiction of country/state which governs the agreement to be stated.

18. Settlement of grievances/disputes and provision for arbitration- (Provisions to cover protection of act done in good faith, Risks and losses, redressal of grievances, dispute resolution mechanism, reference for arbitration and the situations under which such rights may arise, may be made).

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SCHEDULE V

DISCLOSURE DOCUMENT

[Regulation 14]

General instructions

1. This Disclosure Document is to be given to the prospective client along with the account opening form (as per Format I) at least two days in advance of signing of the agreement.

2. This Disclosure Document is to be filed with the Board before it is circulated or issued to any person and every six month thereafter or whenever any material changes are effected therein.

3. This model Disclosure Document enumerates the minimum disclosure requirements to be contained in the disclosure document. The portfolio manager may make any other disclosures, which in its opinion are material for the investor, provided that such information is a statement of fact and is not presented in an incomplete, inaccurate or misleading manner. It should also be ensured that inclusion of such information does not, by virtue of its nature or manner of presentation, hamper understanding of any information that is required to be included under the model disclosure document

   The model Disclosure Document specifies only the nature of the disclosures that should be contained under various heads in the disclosure document, and is not intended to describe the layout or language to be contained therein.

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MODEL DISCLOSURE DOCUMENT FOR PORTFOLIO MANAGEMENT

The minimum disclosures to be given in the Disclosure Document shall be as under and due care shall be taken to present the information in simple language and in a clear, concise and easily understandable manner –

I. *Front page*

(i) The Document has been filed with the Board along with the certificate in the prescribed format in terms of Regulation 14 of the SEBI (Portfolio Managers) Regulations, 1993.

(ii) The purpose of the Document is to provide essential information about the portfolio services in a manner to assist and enable the

investors in making informed decision for engaging a portfolio manager.

(iii) The necessary information about the portfolio manager required by an investor before investing, and the investor may also be advised to retain the document for future reference.

(iv) [105][* * *]

(v) The name, phone number, e-mail address of the principal officer so designated by the portfolio manager is…… (Give details).

II. *Index page giving item number, contents and page number*

III. *Contents of the Document*

1) Disclaimer clause

A statement to the effect that the particulars have been prepared in accordance with the SEBI (Portfolio Managers) Regulations,1993 and filed with SEBI. This Document has neither been approved or disapproved by SEBI nor has SEBI certified the accuracy or adequacy of the contents of the Document.

2) Definitions

All terms used in the Disclosure Document be defined. The language and terminology used in the Disclosure Document shall be as provided in the Regulations. Any new term if used shall be clearly defined. All terms shall be used uniformly throughout the text of the Disclosure Document.

3) Description

[105] Omitted by SEBI (Portfolio Managers) (Amendment) Regulations, 2008, w.e.f. 11-08-2008. Prior to omission, sub-item (iv) read as under:

"All the intermediaries involved in the scheme are registered with SEBI as on the date of the document".

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(i) History, Present Business and Background of the portfolio manager

(ii) Promoters of the portfolio manager, directors and their background

(iii) Top 10 Group companies/firms of the portfolio manager on turnover basis (latest audited financial statements may be used for this purpose)

(iv) Details of the services being offered: Discretionary/ Non discretionary / Advisory.

4) Penalties, pending litigation or proceedings, findings of inspection or investigations for which action may have been taken or initiated by any regulatory authority.

(i) All cases of penalties imposed by the Board or the directions issued by the Board under the Act or Rules or Regulations made thereunder.

(ii) The nature of the penalty/direction.

(iii) Penalties imposed for any economic offence and/ or for violation of any securities laws.

(iv) Any pending material litigation/legal proceedings against the portfolio manager/key personnel with separate disclosure regarding pending criminal cases, if any.

(v) Any deficiency in the systems and operations of the portfolio manager observed by the Board or any regulatory agency.

(vi) Any enquiry/ adjudication proceedings initiated by the Board against the portfolio manager or its directors, principal officer or employee or any person directly or indirectly connected with the portfolio manager or its directors, principal officer or employee, under the Act or Rules or Regulations made thereunder..

5) Services Offered

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(i) The present investment objectives and policies including the types of securities in which it generally invests shall be clearly and concisely stated in the document for easy understanding of the potential investor.

(ii) The policies for investments in associates/group companies of the portfolio manager and the maximum percentage of such investments therein subject to the applicable laws/regulations/ guidelines.

6) Risk factors

[106][(i)

Statement to the effect that securities investments are subject to market risks and there is no assurance or guarantee that the objective of the investments will be achieved.]

[107][(ii)

Statement to the effect that past performance of the portfolio manager does not indicate its future performance.]

(iii) Risk arising from the investment objective, investment strategy and asset allocation.

(iv) Risk arising out of non diversification, if any.

[108][(v) If the portfolio manager has no previous experience/ track record a disclosure to that effect shall be made.]

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106 Substituted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2008, w.e.f. 11-08-2008. Prior to substitution, clause (i) read as under:

"Statement to the effect that securities investments are subject to market risk and there is no assurance or guarantee that the objectives of the scheme will be achieved."

107 Substituted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2008, w.e.f. 11-08-2008. Prior to substitution, clause (ii) read as under:

"Statement to the effect that past performance of the portfolio manager does not indicate the future performance of the same scheme in future or any other future schemes of the portfolio manager."

108 Substituted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2008, w.e.f. 11.08.2008 for the following:

"If the portfolio manager has no previous experience/ track record, a disclosure to the effect that this is the first scheme being launched by the portfolio manager."

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7) Client Representation

(i)

Category of clients	*No. of clients*	*Funds managed (Rs. Cr.)*	*Discretionary/ Non Discretionary (if available)*
Associates /group companies Last 3 years			
Others *(last 3 years)*			
Total			

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(ii) Complete disclosure in respect of transactions with related parties as per the standards specified by the Institute of Chartered Accountants of India.

8) The Financial Performance of the portfolio manager (based on audited financial statements)

9) Portfolio Management performance of the portfolio manager for the last three years, and in case of discretionary portfolio manager disclosure of performance indicators calculated using weighted average method in terms of Regulation 14 of the SEBI (Portfolio Managers) Regulations, 1993.

10) Nature of expenses

(i) Investment management and advisory fees
(ii) Custodian fee
(iii) Registrar and transfer agent fee
(iv) Brokerage and transaction cost

A brief explanation shall be given to assist the investor in understanding the various costs and expenses that an investor may have to bear directly or indirectly. Additionally, appropriate cross-references may be given to the relevant sections of the offer document for more complete description in this regard.

11) Taxation

Disclose the implications of investments in securities and the tax provisions on Income/ Loss or Tax Deduction at Source on various investors.

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12) Accounting policies

Disclose the accounting policy followed by the portfolio manager while accounting for the portfolio investments of the clients.

13) Investors services

(i) Name, address and telephone number of the investor relation officer who shall attend to the investor queries and complaints.
(ii) Grievance redressal and dispute settlement mechanism.

Date:

[109][Name and signature of at least two Directors of Portfolio Manger]

[109] Substituted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2012, w.e.f. 10-2-2012. Prior to substitution, it read as under:
"Name and Signature of all the Directors of the Portfolio Manager."

Place:

FORMAT I (Account Opening Form)

Information about the Client

1) General information about the client

(a) Name, primary mailing address, secondary (back up) mailing address, identity information such as photograph, Permanent Account Number (PAN), driving license etc.

(b) Occupation _____

(c) Introduced by_____ (name and full address)

(d) Annual incomes for the last 3 financial years and the networth as on the last date of the respective years. (optional)

2) Investment profile of the client

(a) Investment experience regarding securities.

(b) Indicative percentage of total investment portfolio proposed to be invested with the portfolio manager (optional).

(c) Overall investment goals such as capital appreciation, capital appreciation & regular income or regular income.

(d) Risk tolerance i.e. low, medium or high.

(e) Time period for which investments are proposed to be made with the portfolio manager.

(f) Provisions for systematic withdrawal on a monthly, quarterly, annual basis etc.

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3) Detailed investment objectives of the client

(a) Equity: Nature of equities in which investments are desired, may be indicated.

(b) Balanced: Percentage of debt/equity.

(c) Debt: Government Bonds, corporate debt etc.

(d) Mutual funds, venture funds etc.

(e) Others.

Date:

Place:

Signature of the client]

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[110][SCHEDULE VI

Declarations for Eligible Fund Managers

[Chapter II-A]

1. Declaration by an existing portfolio manager which intends to act as an eligible fund manager (must be signed by two directors or designated partners, as the case may be)

We hereby declare that we are a SEBI registered portfolio manager with Registration Number …… We intend to provide our services to eligible investment funds. In this regards, we declare that:

a) We comply with subsection 4(a) of section 9A of Income-tax Act, 1961 (We are not an employee of the eligible investment fund or a connected person of the fund);
b) We comply with subsection 4(c) of section 9A of Income-tax Act, 1961 (We are acting in the ordinary course of our business as a portfolio manager);
c) We comply with subsection 4(d) of section 9A of Income-tax Act, 1961 (We along with our connected persons shall not be entitled, directly or indirectly, to more than twenty per cent of the profits accruing or arising to

[110] Inserted by the SEBI (Portfolio Managers) (Amendment) Regulations, 2016, w.e.f. 02-01-2017.

the eligible investment fund from the transactions carried out by the fund through us); and
d) We shall comply with any other requirements as may be specified by the Government and/or any regulatory body from time to time.

For and on behalf of

(Name of Applicant)

_____ _____

Director 1/ Designated Partner 1 Director 2/ Designated Partner 2

_____ _____

Name in Block Letters Name in Block Letters

Place: Place:

Date: Date:

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2. Declaration by an applicant who intends to act as a portfolio manager to eligible investment funds (must be signed by two directors or designated partners, as the case may be) We hereby declare that we are applying to SEBI to be registered as a portfolio manager. We intend to provide our services to eligible investment funds. In this regards, we declare that:

a) We comply with subsection 4(a) of section 9A of Income-tax Act, 1961 (We are not an employee of the eligible investment fund or a connected person of the fund);

b) We comply with subsection 4(c) of section 9A of Income-tax Act, 1961 (We are acting in the ordinary course of our business as a portfolio manager);

c) We comply with subsection 4(d) of section 9A of Income-tax Act, 1961 (We along with our connected persons shall not be entitled, directly or indirectly, to more than twenty per cent of the profits accruing or arising to the eligible investment fund from the transactions carried out by the fund through us);

d) We may engage in the activity of fund management for eligible investment funds, subject to registration provided by SEBI under SEBI (Portfolio Managers) Regulations, 1993; and

e) We shall comply with any other requirements as may be specified by the Government and/or any regulatory body from time to time.

For and on behalf of

_____ _____

(Name of Applicant)

_____ _____

Director 1/ Designated Partner 1 Director 2/ Designated Partner 2

_____ _____

Name in Block Letters Name in Block Letters

Place: Place:

Date: Date:]

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