

# ALTERNATIVE INVESTMENT FUND



## REGULATORY UPDATE

### SEBI MODIFIES VALUATION FRAMEWORK OF INVESTMENT PORTFOLIO OF AIFs

SEBI (Alternative Investment Funds) Regulations, 2012 were amended and notified on June 15, 2023 and SEBI circular no. SEBI/HO/AFD/PoD/CIR/2023/97 dated June 21, 2023 (*subsumed subsequently in Chapter 22 of Master Circular for Alternative Investment Funds (“AIF(s)”) dated May 07, 2024 (“AIF Master Circular”)*) was issued to provide guidance to AIFs towards a consistent and standardized approach for valuation of their investment portfolios.

Subsequently, SEBI issued a consultation paper on “review of certain aspects of the framework for valuation of investment portfolio of AIFs” on May 23, 2024, to address the representations from the AIF industry highlighting issues with regard to the valuation framework for AIFs.

Based on the public comments, SEBI, *vide* its circular dated September 19, 2024 (“**AIF Amendment Circular**”) has introduced amendments to the AIF Master Circular regarding the valuation framework of investment portfolio of AIFs.

The key amendments include:

- a. **Valuation norms for securities:** Subsequent to the AIF Amendment Circular, the revised valuation framework for AIFs is as under:
  - i. **Valuation of securities for which valuation norms have been prescribed under SEBI (Mutual Funds) Regulations, 1996 (“MF Regulations”)**- In case of such securities, *which are mostly listed securities*, the valuation shall be carried out as per the norms prescribed under MF Regulations.
  - ii. **Valuation of unlisted securities, thinly traded and non-traded securities-** Valuation of securities which are not covered in the MF Regulations, *which are mostly unlisted securities, thinly traded and non-traded securities*, shall be carried out as per the International Private Equity and Venture Capital Valuation Guidelines (IPEV Guidelines). It is envisaged that the valuation norms for such securities shall be harmonized across entities within SEBI’s regulatory purview, by March 31, 2025.

- b. **Change in valuation methodology and approach- no longer a 'material change':** Pursuant to the AIF Amendment Circular, change in valuation methodology/approach **shall not** be construed as 'material change'. Prior to the amendment, any change in the valuation methodology was construed as material change significantly influencing the decision of the investor to continue to be invested in the scheme of the AIF. Accordingly, such AIFs were required to provide an exit option to existing investors who did not wish to continue post the valuation methodology change.

The AIF Amendment Circular further mandates that subsequent to any valuation methodology change, the valuation of the investment carried out based on valuation methodologies/approaches, both old and new, shall be disclosed to the investors to ensure transparency.

- c. **Eligibility criteria for independent valuer:** Investment manager of an AIF is required to ensure that the AIF appoints an independent valuer, which satisfies the criteria specified by SEBI in the AIF Master Circular, for valuing investment portfolio of AIFs. The AIF industry had sought a clarification whether valuers who are set up as an entity are required to be IBBI-registered valuer entity and at the same time, whether all of its members are required to have a membership. SEBI has provided a clarification by introducing the following eligibility criteria for independent valuer for a partnership entity or company:

- i. Such entity or company shall be a 'Registered Valuer Entity' registered with IBBI; and
- ii. The deputed/authorized person(s) of such 'Registered Valuer Entity', who undertake(s) the valuation of investment portfolio of AIFs, shall have a membership of the ICAI or ICSI or ICMAI or a CFA Charter from the CFA Institute.

- d. **Timelines for reporting of valuation of investments of AIF to performance benchmarking agencies:** Pursuant to the AIF Amendment Circular, AIFs have now been provided 7 months (*erstwhile* 6 months) to report valuations based on audited data from investee companies to the performance benchmarking agencies, by October 31<sup>st</sup> of each year.

To read the AIF Amendment Circular [click here](#)

For any queries, please contact [yatin@vaishlaw.com](mailto:yatin@vaishlaw.com)

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