



# **Standardised approach-** Valuation of investment portfolio of Alternative Investment Funds (AIFs)

**Summary of the guideline- June 21, 2023**

*Disclaimer- The information provided in the presentation is based on the circular passed by the SEBI( Securities Exchange Board of India)*

## A. Manner of valuation of AIF's investments

- Valuation of securities for which valuation norms have already been prescribed under **SEBI (Mutual Funds) Regulations, 1996 ('MF Regulations')**, shall be carried out as per the norms prescribed under MF Regulations.
- Valuation of securities which are not covered in above para, shall be carried out as per valuation guidelines endorsed by any AIF industry association, which in terms of membership represents at least **33%** of the number of SEBI registered AIFs.
- The manager shall also disclose in PPM (Private Placement Memorandum), the details of the valuation methodology and approach adopted under the stipulated guidelines for each asset class of the scheme of the AIF.

**Definition:- Private Placement Memorandum-** a legal document provided to prospective investors when selling stock or another security in a business. It is sometimes referred to as an offering memorandum or offering document.

## Valuation Guidelines SEBI (Mutual Funds) Regulations, 1996 (‘MF Regulations’)

### Traded Securities:-

- Valued at the last quoted closing price on the principal stock exchange.

### Non-Traded Securities:-

1. **Equity Investment:-** Earning Capitalization based on market approach
2. **Convertible Debenture and Bonds:-** Convertible debentures and bonds, the non-convertible and convertible components shall be valued separately.
3. **Warrants :-** Valued at the value of the share which would be obtained on exercise of the warrant as reduced by the amount which would be payable on exercise of the warrant.

**Definition:- Non-Traded Securities:- Security is not traded on any stock exchange for a period of 30 days prior to the valuation date.**

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

- The Manager shall ensure that the **independent valuer** computes and carries out valuation of the investments of the scheme of the AIF in the manner as specified by the Board from time to time.
- In case the established policies and procedures of valuation do not result in fair and appropriate valuation, the **Manager shall deviate from the established policies and procedures in order to value the assets or securities at a fair value and document the rationale for such deviation.**

**In this regard,**

- In case there is a **deviation of more than 20% between two consecutive valuations** or a **deviation of more than 33% in a financial year**, the manager shall inform the investors the reasons/factors for the same.
- Any change in the methodology and approach for valuation of investments of scheme of AIF, shall be construed as material change significantly influencing the decision of the investor.

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

The manager shall disclose the following as part of changes in PPM to be submitted annually to SEBI and investors:



## C. Eligibility criteria for Independent Valuer

The Manager shall ensure that the AIF appoints an **independent valuer**, which satisfies the criteria specified by SEBI for valuing investment portfolio of AIFs.

Valuer shall not be an associate of manager or sponsor or trustee of the AIF.

The independent valuer shall have at least three years of experience in valuation of unlisted securities.

**The independent valuer shall fulfil one of the following criteria:**

The independent valuer is a valuer registered with any one of the following institute:-

- IBBI
- ICAI
- ICSI
- Institute of Cost Accountants of India or, CFA Institute;

**OR**

The independent valuer is a holding company or subsidiary of a Credit Rating Agency registered with SEBI

**OR**

Any other criteria as may be specified by SEBI from time to time



*THANK YOU!*