



Team IVCA <info@ivca.in>

IVCA Update on Discussion with SEBI regarding Circular on Standardised Approach to Valuation of Portfolio of AIFs

Team IVCA <info@ivca.in>

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Reply-To: info@ivca.in, rohan.parulekar@ivca.in, sumeet@ivca.in

To: Info <info@ivca.in>

Dear IVCA Members,

This is an update to our email last week on valuation of AIFs. We are pleased to share insights from our recent discussion with SEBI on April 2nd, 2024, regarding various aspects of the circular on the Standardised Approach to Valuation of Portfolio of AIFs. Below are the key points discussed and SEBI's responses:

A. Conflicts between IPEV Valuation Guidelines and Mutual Funds Valuation Guidelines:

IVCA Recommendation on our MF and IPEV conflict note has been attached with this email.

- Valuation norms under the MF Regulations can be applied only as regards to listed and traded equity and debt securities up to investment grade. 'Valuation of publicly traded securities evidenced to be jointly held between Mutual Funds and AIFs 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. (For this purpose, the definition of traded money market, government security & debt security will be as per Clause 9.1.3.1 and definition of traded equity shares and other securities, will be as per clause 9.2.1.1 of the Master Circular dated 19th May 2023 of the MF Regulations); and
- Valuation norms under the MF Regulations cannot be applied to private instruments held by AIFs. Thus, for all securities such as unlisted securities, non-traded, thinly traded and those below investment grade, MF regulations should not apply, and they will be valued as per clause 3.2 of the said SEBI circular.

SEBI Response: SEBI has understood our rationale behind the recommendation and will examine the same.

B. Eligibility criteria for Independent Valuer:

IVCA Recommendation: Expanding eligibility criteria to include Category I Merchant Banking Firms and IVSC members and also give managers the freedom to appoint valuers with investors consent especially for Large Value Funds

SEBI Response: SEBI is still contemplating the recommendation, considering the core business of Merchant Bankers and the regulatory framework concerning IVSC. **SEBI has requested for the industry to undertake a survey for IVCA to submit to SEBI data on how many AIF schemes are getting affected as on 01st April '24 due to their previous valuer not being eligible to value the AIF portfolio as they do not meet the criteria as per the valuation circular and had to now change the valuer. A similar survey was done on 29th Nov '23 that had only 37% of IVCA members respond and SEBI has stated that the data was't representative enough and thus, we will send another survey and shall send the link for the same in a follow up email. We urge and request you to diligently respond to it.**

C. Change in valuation methodology and approach to be construed as 'Material Change':

IVCA Recommendation: Modifying the definition of 'Material Change' to align with deviations from the IPEV framework.

SEBI Response: SEBI understands the concern and plans to issue a consultation paper for further resolution, awaiting industry feedback.

D. The requirement of audit of investee companies for valuation is a major hindrance to competing audit of AIFs

IVCA Recommendation is not to make the audit of investee companies mandatory requirement for valuation as it will lead to delays and managers will be in default of the contracts with LPs, listing regulations and tax filings. Further it was also indicated that audit of companies is not a prerequisite under IPEV framework, which permits valuers to rely on latest audited statements

SEBI Response: It has understood the concern and will review the same internally

In conclusion, SEBI has shown receptivity to our concerns and is actively considering resolutions and will also issue a public consultation paper to address the above issues. To this IVCA also suggested that considering that as the circular is already effective and the consultation process will require more time, SEBI can consider keeping this circular in abeyance or make it effective for FY'25, rather than on March 2024

More details on Valuation of AIF's investments: <https://www.ivca.in/sebiupdates/valuation-of-afis-investments>

We will keep you updated on further developments. Your continued engagement is vital as we work towards ensuring clarity and efficiency in regulatory processes.

Best Regards,
IVCA Advocacy Team



Letter to Shri B Rajendran, Executive Director - SEBI ____IVCA feedback - SEBI_Valuation_Circular_MF norms on 12th February, 2024.pdf
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