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Securities and Exchange Board of India
Via email to: Shri. Sachin Kisan Jadhav (sachinj@sebi.gov.in) and Ms. Padma Bharathi S (padmab@sebi.gov.in)

Sub: Comments on Consultation Paper on standardised approach to valuation of investment portfolio of Alternative Investment Funds

At the outset, we, at Indian Association of Investment Professionals (IAIP), a member society of the CFA Institute, appreciate the opportunity to submit our comments to the **Consultation Paper on standardised approach to valuation of investment portfolio of Alternative Investment Funds**

IAIP is an association of over 2000 local investment professionals who are CFA charterholders and about 6000+ professionals who have cleared exams, eligible and awaiting charter. The Association consists of valuation professionals, portfolio managers, security analysts, investment advisors, and other financial professionals that promote ethical and professional standards within the investment industry, facilitate the exchange of information and opinions among people within the local investment community and beyond, and work to further the public's understanding of the CFA designation and investment industry.

CFA Institute is a global non-profit association of investment professionals with over 170,000 members in over 165 countries. In India, the community of CFA charterholders is represented by the Indian Association of Investment Professionals(CFA Society India).

Through our global research and outreach efforts, CFA Societies around the world endeavour to provide resources for policy makers, financial services professionals and their customers in order to align their interests. Our members engage with regulators in all major markets.

The recommendations put forth in the consultation paper for standardizing valuation of investment portfolio of AIF is a positive step and we realize the need for such regulation considering the growth of AIF industry in the last few years. But we have some suggestions on refining the proposed mechanism, which we have put forth in our comments.

We would be happy to hear and discuss the merits / demerits of suggestions proposed by other practitioners and request to be included in the deliberation process.

A. Details of our Organisation:

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B. Key Contributors:

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C. Suggestions / Comments:

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Sr. No.	Paragraph	Suggestion/Comments	Rationale
1.	5.9 AIFs shall be mandated to carry out valuation of their investment portfolio as perIPEV Guidelines	We appreciate the SEBI's effort to standardize the AIF valuation standards so that NAV of various AIFs becomes comparable. It also reduces chances of valuation being disjointed from reality just because of valuation methodology. We agree that the IPEV guidelines are a global standard and is followed for valuing Private Equity/Venture capital funds across various jurisdictions.	We believe the move to standardize valuation standard in AIF was much needed, considering the sharp increase in AIF popularity in the last few years. The standardizing of valuation standard will help the industry to avoid any mishaps or events which can push the growth of the nascent industry back. Also, we believe IPEV is a good valuation standard which has been globally accepted.
2.	6.4. The manager of AIF shall be required to ensure that the AIF appoints such independent valuer who satisfies all of the following conditions: (i) is a valuer registered with	It is a welcome step to clearly specify the qualification or conditions to be an independent valuer. We would however request that considering the globally accredited curriculum of CFA institute and the high quality of CFA society members have	The rationale for recommending that CFA society members being allowed without being registered as independent valuers is that we are confident that our society members have the right education, experience and

	Insolvency and Bankruptcy Board of India (IBBI); (ii) has membership of a professional institute established by an Act of Parliament enacted for the purpose of regulation of a profession such as Institute of Chartered Accountants of India, Institute of Company Secretaries of India, Institute of Cost Accountants of India, etc. or a CFA charter from the CFA institute; (iii) has at least 3 years of experience in valuation of unlisted securities;	experience of working in the valuation field, they should be allowed to be appointed as independent valuers without being registered as a valuer. Further, we would suggest that the valuation experience requirement should include both listed and unlisted securities.	have been industry leaders in this field.
3.	6.5. For the purpose of calculation of NAV, Category III AIFs shall be required to undertake valuation of their investment portfolio in unlisted securities by an independent valuer.	We would recommend that as the large portion of an investment portfolio for Category III AIFs is in listed security, SEBI may look to give a carve-out to Category III AIFs where the unlisted portion of the investments is limited to 5-10%.	The rationale for recommending this is that if the unlisted portion of the investment portfolio is not large, the independent valuer appointment may actually lead to operational hassle without much added benefit.
4.	7.4. Managers of AIFs shall be required to ensure that one of the terms in subscription	We would recommend to SEBI that this recommendation may not be practically	We would suggest that recommendation here have a sound basis but are not

	agreement/investment agreement with the investee company, stipulates a specific timeframe for providing its audited accounts to the AIF. This would enable manager of AIF to report valuation based on audited data as on March 31, to performance benchmarking agencies within the specified timeline of 6 months. 7.5. Managers of AIFs shall be required to ensure that valuation based on audited data of investee company is reported to performance benchmarking agencies only after the audit of books of accounts of the AIF in terms of Regulation 20(14) of AIF Regulations.	implementable for AIF managers. AIF Funds are typically minority investors and they do not have the wherewithal to force the investee companies to agree to a shorter time frame of 6 months. Besides, the audit infrastructure in India may not be ready for both listed and unlisted companies being audited at the same time. Unlisted companies have a timeframe of 6 months from the close of their financial year to finalize their audit, which is 60 days in case of audited companies. The recommendation of having same deadline for the company submission of accounts and and the valuation submission by AIF is not practically possible in many cases. If this is the case, this will make investing in unlisted securities very difficult. Valuation process itself can take anywhere from 3 weeks to 3 months, depending upon the size of the portfolio. Therefore, we also believe that AIFs should be permitted to publish their valuation basis unaudited data from unlisted companies, with valuers having the responsibility to true up the results later when	implementable in the current regulations. If we need the investee company to provide audited data for valuation before the required timeline, the regulations under companies act need to change for that. The AIF managers many times do not have an agreement with the investee company to force their demands to them.

		audited financials are obtained.	
5.	8.5. With regard to responsibilities of manager for valuation, the following is proposed: (i) Managers of all SEBI registered AIFs shall be required to ensure that the independent valuer computes and carries out valuation of investments made by the scheme(s) of AIFs in accordance with the stipulated guidelines. (ii) The Manager shall be required to be responsible for true and fair valuation of the investments made by the scheme of the AIF, provided that where the established policies and procedures of valuation do not result in fair and appropriate valuation, the manager may be required to 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 deviations. (iii) Any such deviation from the disclosed valuation policy and procedures shall be allowed along with disclosure of the documented rationale to the trustee or the trustee company or the Board of Directors or designated partners of the AIF and investors of the AIF. (iv) At each asset level, 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 be required to inform the investors the	We believe that the idea that a manager should own the valuation is a globally adopted practice and we are strongly in favor of that. We would suggest that the role of the Manager should be to ensure that all procedures are followed as specified by SEBI, but the valuation report should be completely independent of manager. We believe that the requirement of reporting of variation in valuation of more than 20% between two valuation dates and 33% within a year maybe too restrictive in our view. The investments in unlisted companies especially early stage startups by their very nature are more volatile than listed companies. We believe that if this rule is implemented, fund managers may end up justifying a majority of their cases. As long as there is no variation in valuation approach, no specific reporting may be required. We would request SEBI to reconsider this rule. Further, we believe that it may be too cumbersome for for managers to report on accounting policy changes in their investee companies. Therefore, SEBI may need to reconsider this requirement.	The rationale for this is to ensure that the valuation is done independently. Further, we believe that repeated reporting of a common occurrence in valuation variance such as 20% variation in valuation of unlisted securities may actually just increase noise for investors and may just lead to increase in operational burden for managers without having the desired results.

	reasons/factors for the same, both generic and specific, including but not limited to change in accounting practices/policy and/or changes in assumptions/projections or changes in valuation principle/methodology/standard, and reasons thereof.		

Thank you again for the opportunity to comment on this important regulatory framework. If you or your staff have questions or seek further clarification, please do not hesitate to contact Mr. Ravi Gautham, CFA at +91 99021 17087 or at advocacy@iaipirc.org.

Sincerely yours,
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Chairperson - Research and Advocacy Committee
Indian Association of Investment Professionals, Member Society of CFA Institute