



Deputy General Manager
Investment Management Department
Supervision, Enforcement and Complaints (Division - 4)

SEBI/HO/IMD/IMD-SEC-4/P/OW/2025/28489/1

November 11, 2025

The Chief Executive Officer
Association of Portfolio Managers in India
B-121, 10th Floor, WeWork, Enam Sambhav,
C-20, G-Block, Bandra Kurla Complex,
Bandra (East), Mumbai - 400051

Dear Sir,

Sub: Observations made during Inspections of Portfolio Managers

SEBI conducts inspections of the Portfolio Managers on regular basis. In order to have uniformity in compliances, it has been decided that observations made by SEBI on certain practices followed by the Portfolio Managers as noted in inspections conducted in the last few Financial Years may be communicated to the industry.

Summary of such practices are given below –:

Deficiencies observed during the inspection:

A. Investment activities related:

- 1) Portfolio Manager ("PM") failed to maintain records of rationale in support of all investment transactions or recommendations indicating the data, facts and opinion leading to the investment decisions. [Regulation 27(1)(e) of the SEBI (Portfolio Managers) Regulations, 2020 ("PMS Regulations")].
- 2) PM failed to ensure compliance with limits on investments of client's funds in securities of their own associates/related parties, as prescribed under para 3.4. of the Master Circular for Portfolio Managers dated July 15, 2025 ("Master Circular for PMS").
- 3) Asset allocation of strategy/investment approach were not in accordance with the investment objectives of the PMS strategy/investment approach disclosed to the investors in the disclosure document.

B. Operations related:

- 4) PM failed to maintain the minimum net worth on a continuous basis in terms of Regulation 9 and Regulation 11(e) of the PMS Regulations.



- 5) PM failed to do reconciliation of client-wise funds with the actual balances available in the pool bank account as per the bank statement on daily basis and ensure strict compliance with para 2.2.2.4 of Master Circular for PMS.
- 6) PM did not have automated system for order management and allocation of securities to each client as required under para 2.7.3. of the Master Circular for PMS and orders were placed by the dealers based on oral instructions from fund manager. PM failed to maintain audit trail of all activities related to management of funds and securities of clients as per para 2.7.4 of the Master Circular for PMS.
- 7) Present systems & processes of PM did not capture details with respect to pre-order placement allocation as well as final allocation of trades to clients along with instances of deviation.
- 8) PM failed to ensure nil open position in PMS pool account at the end of day in terms of Regulation 24(12) of PMS Regulations.
- 9) PM failed to obtain the negative list of securities in writing from the client at the time of entering into the contract – restrictions regarding the investment in a particular company or industry/client's interest in various corporate bodies which enables him to obtain unpublished price-sensitive information of the body corporate. PM failed to have adequate checks and controls to ensure that client's instructions are adhered to in accordance with negative list provided. [Clause (7) of Schedule III to PMS Regulations and Regulation 22 (2) (c) of PMS Regulations]
- 10) The principal officer of the PM did not have any professional qualification, as required under provisions of Regulation 7 (2) (d) of PMS Regulations.
- 11) PM failed to comply with the requirement of undertaking atleast 10% of the secondary market trades in value in corporate bonds using RFQ platform. [Para 3.1.1.1 of Master Circular for PMS].
- 12) PM failed to appoint additional employee as required under Regulation 7 (2) (e) of PMS Regulations.

C. Dealing Room related:

- 13) PM failed to maintain appropriate controls for dealing room like having a separate dealing room, providing entry/access only to authorized employees, having recorded telephone lines, restricting access to internet facilities including access to social media and messaging

sites/applications and preventing use of personal email IDs in dealing room, etc., as stipulated under para 2.7.2.2. of the Master Circular for PMS.

D. Governance related:

- 14) PM failed to communicate details of the Designated Director to the FIU-IND, as required under Clause 79 of SEBI Guidelines on Anti-Money Laundering (AML) Standards and Combating the Financing of Terrorism (CFT)/Obligations of Securities Market Intermediaries under the Prevention of Money Laundering Act, 2002 and Rules framed there under.
- 15) In the absence of any references of Board reviews in the minutes of the Board Meetings of the PM, it was observed that the Board of the PMS failed to:
- review the compliance with the provisions of PMS Regulations, Master Circular for PMS and APMI Guidelines periodically in their meetings;
 - review the due diligence exercised by their officials in their operations;
 - review that the interests of investors are protected;
 - review the performance of the funds managed by them for each client separately as stipulated in 4.5.2.4 of Master Circular for PMS
 - review the investor grievances.

E. Discrepancies in PMS Agreement:

- 16) Following discrepancies were observed in the agreement entered into by the PM with the clients, which are in contradiction to the obligations imposed on the PM through SEBI PMS Regulations and Master Circular:
- Agreement with clients contained a clause giving right to the PM to recover the dues towards group entities from its clients.
 - Agreement with clients contained a clause that PM can delegate any of its function to its agent and PM shall not be liable to the client for any acts of such agent.
 - Agreement with clients contained a clause that PM and its group are not in any manner answerable, responsible or liable to any person or persons for any acts of omission or commission, errors, mistakes and/or violation, actual or perceived, by them or their partners, employees, agents, associates, etc.
 - Agreement with clients contained a clause that upfront fees may be charged which was in violation of proviso to Regulation 22 (11) of PMS Regulation.

- (v) Clauses in Agreement with clients limiting the liabilities and obligations of Portfolio Manager, which are in contradiction to the provisions of PMS Regulations and Circulars issued thereunder;

F. Disclosure and reporting related:

- 17) PM failed to mention in the disclosure document that decisions taken in good faith by the PM in deployment of the Clients' account is absolute and final and cannot be called in question or be open to review except on the ground of malafides, fraud, conflict of interest or gross negligence. [Clause 4.2 of the Master Circular for PMS].
- 18) Inconsistent reporting of performance between documents and interchangeable use of "CAGR" instead of "TWRR" was observed, which was in violation of Regulation 22 (4) (e) of SEBI (PMS) Regulations, 2020 and Regulation 22 (10) of PMS Regulations read with Clause 1.1, 1.2, 1.3 and 2.1 of Annexure 2A: Guidelines for Advertisements by Registered Portfolio Managers of Master Circular for PMS.
- 19) PM violated para 4.5.3.5 read with para 5.3.1 of Master Circular for PMS by not considering non-Discretionary PMS portfolio for calculation of the firm level performance.
- 20) Non-disclosure of penalties, pending litigation or proceedings, or investigation taken or initiated by regulatory authorities and audited financial statements for the immediately preceding three years in the Disclosure Document.
- 21) PM failed to disclose the details of commission paid to distributors, risk foreseen by the PM and the risk relating to the securities recommended by the PM for investment or disinvestment, in periodical reports send to clients as required under Regulation 31(1)(e) of the PMS Regulations.
- 22) PMS failed to intimate to SEBI regarding change in compliance officer as required under Regulation 11(b) of the PMS Regulations.
- 23) PMS failed to make timely disclosure with respect to material change in its investment approach and other material changes (e.g. change in Principal Officer) as required under Regulation 22(7) & 22(9) read with clause-2 of the Schedule V of PMS Regulations.
- 24) PM submitted incorrect offsite data/not submitted offsite data within the prescribed timelines.

- 25) PM failed to submit the following periodic reports within prescribed timelines as required under Para 5.1.2 of Master Circular for PMS and SaaS declaration under SEBI Circular no. SEBI/HO/MIRSD2/DOR/CIR/P/2020/221 dated November 03, 2020:
- (i) Improvement in Corporate Governance;
 - (ii) Compliance Certificate;
 - (iii) Performance Report;
 - (iv) Net worth Certificate;
 - (v) Monthly reports; and
 - (vi) SaaS declaration under SEBI Circular no. SEBI/HO/MIRSD2/DOR/CIR/P/2020/221 dated November 03, 2020.
- 26) Employees of PM failed to make required disclosures of their interest while rendering investment advice about security in publicly accessible media [Clause 11 (2) of Schedule III to PMS Regulations].

G. Deficiency in client on-boarding:

- 27) PM relied solely on the custodian and failed to independently validate Bank accounts of the clients through Penny Drop mechanism or any other mechanism using API of the Bank and maintain logs for the same indicating audit trail for such verifications of clients on boarded. [Clause 47 of SEBI Master Circular on Know Your Client (KYC) norms for the securities market SEBI/HO/MIRSD/SECFATF/P/CIR /2023/169 dated October 12, 2023].
- 28) PM failed to do client verification at its end and completely relied on verification done by the custodian and thereby failed to ensure strict compliance with provisions of SEBI Guidelines on Anti-Money Laundering (AML) Standards and Combating the Financing of Terrorism (CFT) /Obligations of Securities Market Intermediaries under the Prevention of Money Laundering Act, 2002 and Rules framed thereunder and failed to maintain logs of such verification of new/existing clients with UNSC Sanctions Committee lists, Notifications under Unlawful Act (Prevention) Act, 1947, SEBI debarred lists, wilful defaulter lists, Fugitive Economic offender lists, etc.
- 29) PMS agreements did not contain an annexure illustrating fees and charges as stipulated under para 4.3.1 of the Master Circular for PMS.
- 30) PM allowed partial redemption of funds leading to client funds or securities falling below INR 50 lakh; In cases where the invested amount was below Rs.50 lakhs, PM allowed top-

ups such that even after such top-ups, AUM of the concerned client did not reach minimum investment amount.

- 31) In cases, where on account of death of the client, the nominee or legal heir, are onboarded as a new client to avail the Portfolio Management Services, PM failed to ensure compliance with minimum investible corpus requirement.

H. Deficiency in Client Servicing and protection of investor interest:

- 32) PM failed to disclose details of credit ratings of investments in debt and hybrid securities in quarterly reports sent to clients and thereby did not comply with the provisions of Para 5.5.1.3. of Master Circular for PMS.
- 33) PM violated Regulation 22(11) of PMS Regulations by charging the fees in excess of the fees agreed upon in the agreement.
- 34) PM had collected upfront fees from certain clients, in violation of Regulation 22 (11) of PMS Regulators.
- 35) PM charged Premature Redemption Charges/ Exit Fees in excess of the limits prescribed under para 6.1.4 of the Master Circular for PMS.
- 36) PM failed to maintain logs for delivery of the quarterly reports to the clients and failed to ensure dispatch of physical reports to the registered addresses of clients, whose emails were bounced back and maintain Proof of Dispatch.

ADVISORIES

PM is advised to ensure that:

- 1) Records maintained in support of investment transactions are signed by the principal officer and properly time and date stamped.
- 2) Establish adequate systems and processes so that DP reconciliation is properly carried out and corporate actions benefits are immediately passed on to the clients.
- 3) Internal Audit report of the PM to be comprehensive enough to cover all the:
 - (i) compliance requirements stipulated in PMS Regulations, Master Circular for PMS and APMI Guidelines;
 - (ii) key areas of compliances and operations including verification of investment process including maintenance of records regrading investment decisions, recording of investment rationale, verification of trades executed in the own account of the PMS, verification of Dealing Room, Front Office and Mid Office functions, policies on Broker empanelment/Brokerage, Distributor empanelment/Commission etc.

- 4) In case of defaulted securities, PM to actively exercise all the rights to recover the dues from the issuers including the rights enshrined in the investment agreement and Debenture Trust Deed and pass on the recovered amount to all the concerned clients.
- 5) PM to ensure that there is no difference in performance data mentioned in the marketing material, disclosure document, performance reporting made to SEBI, reports sent to clients and disclosure made on its website.
- 6) Investor Charter to be prominently displayed on the home page of the website of the PM, as stipulated under para 4.4 of Master Circular for PMS.
- 7) PM to verify the distributor's Code of Conduct certificate and NISM – VA/ARN certificate at the time of receipt of client applications from the distributor and further ensure that the certificates and declarations submitted by the distributors are dated and valid.
- 8) PM to provide a detailed statement of accounts to its clients on termination of contract.
- 9) PM to provide Quarterly reports to the clients whose accounts were closed during the quarters;
- 10) PM to avoid mentioning the names of persons who are not the employees of PMS (ex. employees of the associate entities) in the product brochures/marketing materials which could mislead the investors.

It may be noted that the above list of observations is not exhaustive but contain only few of the major findings observed during the inspections of the Portfolio Managers conducted in the recent years. SEBI takes a view in different matters based on the nature of violations, quality of evidence, loss to investors, repetition of violations and other mitigating factors. While necessary actions taken/advisories have been issued to the concerned Portfolio Managers with respect to the deficiencies found during the inspections, the above findings/advisories issued may be shared with all the members of the APMI to ensure:

- (i) improvement in systems, processes, and controls to ensure compliance with SEBI (Portfolio Managers) Regulations, 2020 and Circulars issued thereunder from time to time and to have audit trails indicating regrading compliance of the same; and
- (ii) to have uniform best practices across all Portfolio Managers to ensure better compliance with SEBI (Portfolio Managers) Regulations, 2020 and Circulars issued thereunder in letter and spirit.



All Members of APMI may be advised to place the said advisory before their Board and to take corrective actions in respect of the observations and advisories listed as above. Further members may be advised to ensure strict compliance with the SEBI (Portfolio Managers) Regulations, 2020 and all the Circulars issued by SEBI from time to time. Any repetition of the violations or non-compliance would be viewed seriously.

Yours faithfully,

R. Anand

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