



APMI/2023-24/09

To: **SEBI Registered Portfolio Mangers**

From: APMI Principal Officer

Subject: Standardized Terms of Reference ('ToR') for the audit of firm-level performance data.

Date: **28th September 2023**

This is with reference to SEBI Circular dated 2nd August 2023- Audit of firm-level performance data of Portfolio

Managers <https://www.apmiindia.org/storagebox/images/Circulars/Audit%20of%20firm%20level%20performance-%203rd%20Aug'23.pdf> Circular

**Further to point number 3.1 of the Circular:**

1. The work flow of creation of ToR was taken up with APMI Benchmarking and Valuation Committee as the primary committee. Views and suggestions of the APMI Operations & Compliance Committee were also invited and incorporated therein.
  - o Post the deliberations at the Committees, this was put up to the APMI Board.
  - o After their approval, it was submitted with SEBI for approval & guidance.
2. Please find attached herewith the Standard Terms of Reference for audit of firm-level performance data with reference to the Circular.
3. **Kindly note, the standard ToR specified by APMI are applicable with effect from 1st October'23, and shall be mandatorily followed by all Portfolio Managers for the purpose of annual audit of firm-level performance data.**

Submitted for your required compliances.

Warm Regards,

Association of Portfolio Managers in India  
B-121, 10th Floor, WeWork- Enam Sambhav,  
G-Block, Bandra Kurla Complex, Mumbai- 400051



## **A: Standardized Terms of Reference ('ToR') for the audit of firm-level performance data**

Para 14 of SEBI Circular SEBI/HO/IMD/DF1/CIR/P/2020/26, dated February 13, 2020, stipulates that the firm level performance data of the Portfolio Manager shall be audited annually. The below framework aims to ensure consistent, accurate, and transparent reporting practices to assess the performance of all clients under a Portfolio Manager.

The scope of this framework encompasses clients' portfolios under all services, both discretionary (DPMS) and non-discretionary (NDPMS), to audit the firm-level performance data. The performance of advisory clients and co-investment clients may be excluded only if the performance of such clients, either individually or cumulatively, is not reported or published in any marketing material or website.

- The audit of the performance data will be conducted on an annual basis.
- The auditors shall verify and confirm the firm level performance per the Terms of Reference laid out in this framework.
- Portfolio Managers shall submit the confirmation of compliance with the requirement of annual audit of firm-level performance data in line with the standard ToR specified by APMI, to SEBI within sixty days from the end of each financial year. The aforesaid report on confirmation of compliance to SEBI shall be certified by Directors/ Partners of the Portfolio Manager or by person(s) authorized by the Board of Directors/Partners of the Portfolio Manager.
- Portfolio Managers shall submit audit report on firm-level performance data to SEBI within sixty days from end of each financial year.

## **B: Methodology for Performance Metrics**

- The performance computation shall include the AUM and corpus flows for discretionary and non-discretionary offerings of the Portfolio Manager. In cases where the performance of advisory or co-investment offerings are published by the Portfolio manager, then the same shall also be included for this purpose.
- The firm-level performance computation is to be audited at each Investment approach (IA) level. For this purpose, aggregate holdings of all clients under each of the Investment Approaches shall be taken for performance computation.
- Cash, cash holdings, and investments in liquid funds, if any, shall be considered for performance computation.
- The performance data shall be net of all fees and expenses (including taxes, if any).
- The performance shall be computed using the Time Weighted Rate of Return (TWRR) method as stated in Regulation 22 (4) (e) of the SEBI (Portfolio Managers)



Regulations, 2020 and 28<sup>th</sup>October, 2020 FAQ-Portfolio manager point 15-the performance of a discretionary portfolio manager is calculated using time-weighted rate of return (TWRR) method for the immediately preceding three years or period of operation, whichever is lesser.

- Comparison between the performance data reported to SEBI and that is published by the Portfolio Manager in any marketing material, and/or website.

### **C: Data for Audit Purpose:**

The Portfolio manager shall ensure that the following data, in the least, shall be provided to the auditors for the said firm-level performance audit.

- Data of all securities held under each Investment Approach for all DPMS and NDPMS offerings. This shall include Daily AUM, portfolio holdings including cash /cash equivalent, capital register for capital inflow/outflows etc.
- Source data used for valuing/marketing to market the securities as per relevant guidelines/circulars, including for illiquid securities.
- Data of all SEBI reporting done during the year, including those submitted to APMI.
- Copies of all relevant marketing materials, advertisements etc. where the performance is being published.
- Portfolio Managers who publish the performance of their IA offerings shall provide the above data for all their IA as well.

### **D: Auditor's Report:**

The auditor shall inter alia mention the following in the annual performance audit report:

- The firm level performance computation has been done using the TWRR method for all Investment Approaches under DPMS and NDPMS offering and Investment Advisory (if the same is published) of the Portfolio Manager and the same has been verified.
- The Portfolio Manager has complied with paragraph 4.5.3 of the SEBI Master Circular No. SEBI/HO/IMD/IMD-POD- 1/P/CIR/2023/38 dated March 20, 2023 and as per the terms of reference for the performance audit as provided in APMI's guidelines.
- Confirm that the portfolio performance reported by the Portfolio Manager is not based on model portfolios and is basis actual aggregate performance at each Investment approach level.
- Mention references including marketing material and website of the PMS etc. that were verified for compliance purposes.



- To highlight any deviation /adjustment made to the above and how the same has impacted the performance reporting materially along with quantifying the differences and rationale for such deviations if any.

**E: Eligibility criteria of the audit firm:**

- The primary qualification for an individual or audit firm to be appointed as an auditor of a company is that the said individual auditing and certifying the data must be a chartered accountant in practice. (Section 141 (1) of the Companies Act for qualification)

**Note:**

- The TOR has to be read in conjunction with existing SEBI regulations and circulars issued from time to time and has to be interpreted harmoniously.