

SEBI Introduces a New Regulatory Framework for Portfolio Management Service

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Background

Since 2020, the portfolio management services (PMS) industry has grown significantly. The assets under management (AUM) rose from INR 18.07 lakh crore in April 2019 to INR 42.61 lakh crore as on 31 May 2026.¹

The Securities and Exchange Board of India (SEBI) carried out a survey among industry stakeholders through the Association of Portfolio Managers of India (APMI), seeking to identify regulatory provisions requiring review from an ease of doing business perspective. Based on the industry feedback and its internal analysis, SEBI issued a consultation paper on 23 July 2026 along with draft regulations (PMS Consultation Paper). The feedback received pursuant to the PMS Consultation Paper was examined and the proposed changes to the Securities and Exchange Board of India (Portfolio Managers) Regulations, 2020 (PMS Regulations 2020) were placed before SEBI.

Accordingly, on 24 September 2026, SEBI, at its 215th board meeting (Board Meeting), has approved the introduction of SEBI (Portfolio Managers) Regulations, 2026 (PMS Regulations 2026), which will supersede the PMS Regulations 2020. The PMS Regulations 2026 are being introduced with the following objectives:

- I. development of the PMS industry;
- II. ease of compliance;
- III. consolidation of regulatory provisions and simplification of language; and
- IV. removal of redundant provisions.

Below are the key provisions of the PMS Regulations 2026 which were approved at the Board Meeting:

I. Developmental Measures

1. ***Investment in initial public offerings (IPOs) and primary debt issuances:*** Portfolio managers have been permitted to invest in 'to be listed' securities.²

Comment: Under the PMS Regulations 2020, portfolio managers are permitted to invest only in securities that are listed and traded on recognised stock exchanges. They are not permitted to invest in 'to be listed' securities. In order to expand the universe of permissible investments and facilitate portfolio diversification under the PMS route, the PMS Regulations 2026 shall now permit investment in public issues in IPOs as well as primary market issuances in the debt market.

2. ***Investment in unlisted debt securities under DPMS:*** Portfolio managers offering discretionary portfolio management services (DPMS) have been permitted to invest up to 10% (ten percent) of the client's

¹ SEBI Consultation Paper on Comprehensive Review of SEBI (Portfolio Managers) Regulations, 2020, dated 23 July 2026. (Click [here](#) to access)

² Draft Regulations (Annexure A to the Consultation Paper) defines 'to be listed' securities as equity securities available for purchase or application or investment under public issue in an initial public offer, or debt securities under primary market issuance, till its listing. (Click [here](#) to access)

assets under management in investment-grade, non-convertible, unlisted debt securities, subject to the consent of the client.

Comment: Under the PMS Regulations 2020, portfolio managers only offering non-discretionary portfolio management services (NDPMS) and advisory services are permitted to invest up to 25% (twenty-five percent) of the client's AUM in unlisted securities. However, the PMS Regulations 2026 also extends the flexibility for portfolio managers offering DPMS to invest clients' funds in unlisted securities (i.e., investment-grade, non-convertible, unlisted debt securities) to align the DPMS framework with the evolving market dynamics and facilitate enhanced investment flexibility.

3. **Investment in exchange-traded derivatives:** Portfolio managers have been permitted to invest client's funds in exchange-traded derivatives and undertake a total exposure not exceeding 1.25 (one point two five) times the client's AUM.

Comment: Although the PMS Regulations 2020 permit investment in derivatives, including for hedging and portfolio rebalancing, leveraged exposure or unhedged directional exposure through derivatives is not permitted. The PMS Regulations 2026 will, therefore, permit greater flexibility for investment in exchange-traded derivatives and allow portfolio managers to meet the demand for personalised solutions within a defined exposure limit.

4. **Investment in foreign securities:** Portfolio managers have been permitted to invest clients' funds in foreign securities, including but not limited to, listed equity, debt, REITs, offshore mutual funds, exchange-traded funds (ETFs), index funds and foreign government debt, governed under Foreign Exchange Management Act, 1999, and Liberalised Remittance Scheme of the Reserve Bank of India (RBI).

Comment: Under the PMS Regulations 2020, Portfolio managers were not permitted to invest client funds in foreign securities and accordingly, clients would have to make direct investments outside India without assistance of a portfolio manager. Mutual funds and alternate investment funds in India and portfolio managers based in an International Financial Services Centre are each permitted to make foreign investments for their clients.

By enabling investment in foreign securities under both DPMS and NDPMS, SEBI has enhanced the approach and enabled clients to seek professional management for foreign investments and established regulatory parity between portfolio managers and other asset managers.

It is also to be noted that the enablement is limited to listed equity and investment in unlisted equity is still not permitted to be managed by portfolio managers.

5. **Portfolio Managers Route for Investing in Mutual Fund units (PRIM):** A separate investment approach has been introduced for Portfolio managers by permitting them to invest client funds in direct plans of mutual funds, including ETFs, index funds and specialised investment funds of Indian asset management companies (AMCs). SEBI has further clarified the following guidelines applicable to the framework:
- I. the minimum ticket size of INR 25,00,000 (Indian Rupees Twenty-Five Lakh) for each client;
 - II. the portfolio manager will be required to have a net worth of at least INR 2,00,00,000 (Indian Rupees Two Crore);
 - III. the principal officer of the portfolio manager will be required to have a graduation / Chartered Financial Analyst / Chartered Accountant qualification, with 2 (two) years of securities market experience and a simplified National Institute of Securities Markets (NISM) certification;
 - IV. the extant provisions on charging of exit loads have been waived off;
 - V. a prudential cap of 25% (twenty-five percent) shall be applicable to investments in schemes of affiliated / group / associate AMCs;
 - VI. a fixed management fee capped at 1% (one percent) of the client's AUM, along with a performance-based fee, has been permitted; and
 - VII. activities and clients have been segregated between mutual fund distribution (MFD) and PRIM for all clients, except accredited investors.

Comment: Industry stakeholders had represented that there was a demand for a simplified 'mutual fund-only' PMS framework with lower entry barriers which would serve investors who seek professional management of their mutual fund investments. While the lower ticket size, net worth and qualification thresholds reduce entry barriers under the PRIM, the cap on affiliated AMC schemes, the cap on

management fees and the segregation from MFD act as safeguards for clients against potential conflicts of interest.

6. **Eligible Fund Managers (EFMs)**: EFMs have been permitted to manage and advise on investments of eligible investment funds in foreign securities. Where the eligible investment fund invests in Indian securities, the investment limit will remain aligned with the prevailing foreign portfolio investor framework.

Comment: Under the PMS Regulations 2020, portfolio managers are not permitted to manage or advise on foreign securities. Consequently, EFMs registered as portfolio managers are also deemed to be restricted from offering such services. SEBI has now removed the restriction on EFMs that flowed primarily from the bar on portfolio managers and has permitted EFMs to manage and advise the investment of an eligible investment fund in foreign securities.

7. **Independent Fund Managers (IFMs)**: SEBI received representations to permit independent fund managers to bring their own clients and to manage client funds while operating under the umbrella of a single SEBI-registered portfolio manager. The key features of the proposed model are set out below:
- I. the registered portfolio manager will have full responsibility and liability for all activities of the IFM;
 - II. the IFM will have the same qualifications, experience and certifications as a principal officer;
 - III. fees will be paid directly to the registered portfolio manager;
 - IV. the orders generated by IFMs will flow through the portfolio manager's infrastructure;
 - V. a portfolio manager may affiliate with several IFMs, but an IFM may operate under only one portfolio manager at a time;
 - VI. the clients will have a mandatory exit option if an IFM leaves or is terminated; and
 - VII. APMI will maintain and update a central database of all active IFMs.

Comment: This introduction permits independent fund managers (individuals) to serve their own clients without a separate registration, while the overall regulatory compliance obligation rests with the registered portfolio manager.

II. Ease of Compliance Measures

1. **Qualification of principal officer**: The minimum educational qualification prescribed for the principal officer of the portfolio manager has been relaxed and rationalised to promote ease of doing business and widen the pool of eligible principal officers, such that a graduate will now be eligible to function as principal officer.
2. **Dealing room relaxation**: The requirement to maintain a dedicated and segregated dealing room has been relaxed for portfolio managers with AUM below INR 100,00,00,000 (Indian Rupees One Hundred Crore) since such portfolio managers generally have a limited client base, lower trading volumes and simpler operating structures, resulting in significantly lower operational and market integrity risks.
3. **Standardised investment management agreement (IMA) and power of attorney (POA)**: A standardised IMA has been approved for ease of understanding by clients, embedded with the authority to operate the demat and trading accounts. However, the POA requirement for bank accounts, as mandated by RBI, shall continue to apply.
4. **Harmonisation of reporting timelines**: The timelines for reporting of material and non-material matters have been harmonised to enable portfolio managers to make filings in a timely manner within a uniform framework and ease regulatory compliance.
5. **Digital disclosure document**: Under the extant framework, portfolio managers are required to provide the disclosure document to clients in the specified format. Towards a paperless initiative, a digital disclosure document has been approved to promote the transition to digital communication and reduce reliance on physical documents for both portfolio managers and clients.
6. **Operating expenses**: Statutory levies have been excluded from the computation of operating expenses, which are subject to a cap of 0.5% (zero point five percent) per annum, thereby providing greater clarity and transparency on how the cap is computed.

Conclusion

The approval of the aforementioned provisions is a welcome move by SEBI, reflecting the regulator's awareness of the evolving size and sophistication of the Indian investor base.

The provisions approved in the forthcoming PMS Regulations 2026 include expanding the permissible investment universe to cover 'to be listed' securities, unlisted debt securities under discretionary services, and foreign securities under both discretionary and non-discretionary services. The PRIM framework would further broaden access to professional portfolio management by reducing the minimum investment threshold to INR 25,00,000 (Indian Rupees Twenty-Five Lakh) and simplifying operational requirements. SEBI has also considered a scale-of-operations-based regulatory approach to ease compliance requirements for smaller portfolio managers, including relaxation of dedicated dealing room requirements for portfolio managers with AUM less than INR 100,00,00,000 (Indian Rupees One Hundred Crore).

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