

SEBI issues operational framework (PaRRVA) for performance validation agency

The Securities and Exchange Board of India (SEBI) vide its **Circular No. SEBI/HO/MIRSD/MIRSD-POD/P/CIR/2025/51 dated April 04, 2025**, has outlined the operational framework for a performance validation agency called the Past Risk and Return Verification Agency (PaRRVA), outlining its responsibilities and the eligibility criteria for credit rating agencies (CRAs) to be recognised as such. This framework aims to curb misleading claims about past performance in advertisements related to financial products by research analysts, investment advisors, and stock brokers.

The SEBI announced that verification services will be launched on a two-month pilot basis to test the system. During this period, feedback from stakeholders will be gathered to improve the process.

The agency will be responsible for verifying the risk and return metrics of financial products and services offered by intermediaries such as investment advisers, research analysts, and stock brokers. Further, a CRA meeting certain criteria can act as a verification agency.

In terms of eligibility criteria, SEBI has specified that a CRA must have at least 15 years of past experience, a net worth of Rs.100 crore, and an established investor grievance redressal mechanism, including an Online Dispute Resolution (ODR) system, to qualify as a PaRRVA.

Regarding the recognition process, SEBI will grant approval to eligible CRAs following an assessment. Additionally, CRAs are required to partner with a recognised stock exchange, which will function as the PaRRVA Data Centre (PDC).

The PDC will be responsible for collecting data from financial entities such as mutual funds and stock exchanges. It will also be responsible for developing and maintaining the verification system while ensuring data security and confidentiality.

The SEBI emphasised that any display of risk-return metrics verified by the PaRRVA, as well as any claims based on such metrics, must be accompanied by appropriate disclaimers.

These disclaimers will include critical notes, such as clarifying that past performance is not indicative of future results, verified returns do not guarantee assured returns, and that risk-return metrics should not be the sole basis for investment decisions. It will also highlight that the verified return may differ from the actual return accrued to a client.

Further, the PaRRVA will be responsible for defining verification methodologies, managing disputes and grievances, and maintaining records of verified data for at least five years. Disputes between the PaRRVA and intermediaries will first be addressed through internal mechanisms and unresolved issues can be escalated to the ODR platform.

To ensure effective oversight, there will be an oversight committee to monitor the activities of both the PaRRVA and the PDC. Additionally, SEBI will have the authority to conduct inspections and enforce compliance.

Synopsis – For internal circulation

Link - <https://www.sebi.gov.in/legal/circulars/apr-2025/recognition-and-operationalization-of-past-risk-and-return-verification-agency-parrva-93321.html>