



**SEBI Circular On**

**Flexibility to Alternative Investment Funds (AIFs)  
and their investors to deal with unliquidated  
investments of their schemes.**

**Dated: 26th April 2024**

**Source - SEBI/HO/AFD/PoD1/CIR/2024/026**



## ▪ Background of the Circular

Securities and Exchange Board of India (**Alternative Investment Funds**) (**Second Amendment**) **Regulations 2024 ("AIF Regulations Amendment")** have been notified on **April 25, 2024**, inter alia, to provide additional flexibility to AIFs and their investors to deal with unliquidated investments of their schemes.

## ▪ Brief of the Circular

### A. Regulation 29(9) of AIF Regulations states as under

Notwithstanding anything contained in **sub-regulation (7)**, during **liquidation period** of a scheme, an Alternative Investment Fund may distribute investments of a scheme which are not sold due to lack of liquidity, in-specie to the investors or enter into the dissolution period, after obtaining approval of at least seventy five percent of the investors by value of their investment in the scheme of the Alternative Investment Fund, in the manner and subject to conditions specified by the Board from time to time.

Provided that in the absence of consent of unit holders for exercising the options under sub-regulation (9) during liquidation period, such investments of the scheme of the Alternative Investment Fund shall be dealt with in the manner as may be specified by the Board from time to time.

In this regard, the following conditions are specified.

1. Before seeking investor consent for Dissolution Period
  - Arrange bid **for minimum 25% of unliquidated investments' value**.
  - The bid should be for units representing the consolidated value of all unliquidated investments.
  - The proposed tenure of the Dissolution Period, details of unliquidated investments, value recognition of the unliquidated investments for reporting to Performance Benchmarking Agencies, etc.
  - Indicative bid value range and valuation by **two independent valuers** to be disclosed.
2. Prior to Liquidation Period expiry
  - Intimate SEBI about obtaining investor consent for **Dissolution Period**.
3. If bid for minimum **25% is successful**
  - Dissenting investors offered full exit from the scheme.
  - Any unsubscribed portion of bid used for pro-rata exit to non-dissenting investors.
4. If bid for **minimum 25% fails**
  - AIF can still opt for Dissolution Period with consent of at **least 75% investors** by value.
5. No exit provided to bidder or related parties from bid.
6. Value calculation during Dissolution Period:
  - Based on bid value if minimum **25% bid arranged or**
  - One Rupee if minimum bid not arranged.
7. The manager doesn't charge management fees during the Dissolution Period.

8. If unliquidated investments aren't sold during Dissolution Period:
- Mandatory in-specie distribution to investors.
  - No further extension or Liquidation Period available after Dissolution Period expiry.

**B. Mandatory in-specie distribution of unliquidated investments**

With regard to the proviso of Regulation 29(9) mentioned at para above, the following is specified.

**During Liquidation Period**

**If investor consent for Dissolution or in-specie distribution isn't obtained**

- Unliquidated investments distributed in-specie **without needing 75% investor consent**.
- The value of distributed investments is recognized **at one rupee for performance tracking**.
- Investors' declining in-specie distribution results in **write-off of their portion**.

**C. One-time flexibility to schemes of AIFs whose Liquidation Period has expired, to deal with unliquidated investments.**

**Regulation 29(9A) of AIF Regulations states as under**

"If the liquidation period for a scheme of an Alternative Investment Fund has expired or is expiring within three months from the date of notification of the Securities and Exchange Board of India (Alternative Investment Funds) (Second Amendment) Regulations, 2024, such schemes may be granted an additional liquidation period, subject to such conditions and in the manner as may be specified by the Board.

Provided that the additional liquidation period granted under sub-regulation (9A) shall be without prejudice to the issuance of any direction or measures in accordance with the provision of the Act and regulations framed thereunder."

In this regard, the following conditions are specified.

- AIF schemes with expired or expiring Liquidation Periods on or **before July 24, 2024**, will be granted a new **Liquidation Period till April 24, 2025**.
- This extended Liquidation Period applies only to schemes without any unresolved investor complaints regarding non-receipt of funds/securities as of **April 25, 2024**, the date of the **AIF Regulations Amendment notification**.
- Schemes with pending investor complaints related to non-receipt of funds/securities may utilize the extended Liquidation Period after resolving such complaints. However, the fresh Liquidation Period shall be available only from the date of resolution of the complaint till **April 24, 2025**.
- During the Fresh Liquidation Period, the scheme shall fully liquidate its investments, or distribute the investments in-specie or opt for the **Dissolution Period**.

#### **D. Responsibility for compliance:**

- The manager, trustee and key management personnel of AIF and manager shall be responsible for compliance with the procedure prescribed above.
- The manager, upon exercising the options mentioned above, shall submit a report on compliance with the provisions of this circular on SEBI Intermediary Portal ([www.siportal.sebi.gov.in](http://www.siportal.sebi.gov.in)) in the format as specified therein.
- The trustee/ sponsor shall ensure that the '**Compliance Test Report**' prepared by the manager in terms of **Chapter 15 of SEBI Master Circular for AIFs (Circular No. SEBI/HO/AFD/PoD1/P/CIR/2023/130 dated July 31, 2023)**, includes compliance with the provisions of this circular.

#### **E. Discontinuation of the option of launching Liquidation Scheme Regulation 29A (8) of AIF Regulations states as under**

"No Alternative Investment Fund shall launch any new liquidation scheme under this regulation after the notification of the Securities and Exchange Board of India (Alternative Investment Funds) (Second Amendment) Regulations, 2024

Provided that any liquidation scheme launched by an Alternative Investment Fund prior to the notification of the Securities and Exchange Board of India (**Alternative Investment Funds) (Second Amendment) Regulations, 2024** shall continue to be governed by regulation 29A and the other provisions of these regulations till such schemes are wound up.

**In this regard, the following is specified.**

Any Liquidation Scheme launched by an AIF prior to April 25, 2024 (**i.e. the date of notification of AIF Regulations Amendment**) shall continue to be governed by SEBI Circular No. **SEBI/HO/AFD/PoD1/CIR/2023/098 dated June 21, 2023** on 'Modalities for launching Liquidation Scheme and for distributing the investments of AIFs in-specie', till such schemes are wound up

# Impact of the Circular

- 1. Enhanced Investor Protection and Transparency:** The circular introduces measures to safeguard investor interests during the liquidation period of Alternative Investment Funds (AIFs). It mandates specific conditions for the distribution of unliquidated investments, ensuring that investors play a pivotal role in decision making. The requirement for obtaining investor consent for the dissolution period or in-specie distribution enhances transparency and accountability in fund management.
- 2. Structured Approach to Handling Unliquidated Investments:** The circular provides a structured framework for AIFs to deal with unliquidated investments during the liquidation period. By setting out conditions such as arranging a bid for a minimum of 25% of unliquidated investments' value and disclosing bid details to investors, it ensures a fair and transparent process for all stakeholders involved.
- 3. Flexibility and Continuity for AIF Schemes:** A significant impact is the provision for AIF schemes with expired or expiring liquidation periods to be granted an additional liquidation period, subject to certain conditions. This provision offers flexibility for AIFs to manage their unliquidated investments effectively and ensures continuity in fund operations, thereby minimizing disruption and preserving investor interests.
- 4. Regulatory Compliance and Accountability:** The circular emphasizes the responsibility of AIF managers, trustees, and key management personnel to ensure compliance with the prescribed procedures. By requiring the submission of compliance reports on SEBI's Intermediary Portal and inclusion of compliance details in the Compliance Test Report, it enhances regulatory oversight and accountability within the AIF industry.
- 5. Discontinuation of Liquidation Scheme Launch:** Another significant impact is the discontinuation of launching new liquidation schemes by AIFs after the notification of the amendment regulations. This measure aims to streamline the winding-up process of AIFs and prevent the introduction of new schemes that may complicate the liquidation process. It ensures that existing liquidation schemes continue to be governed by the specified regulations until completion, promoting consistency and clarity in fund management practices.



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