



# Guidelines for AIFs with respect to holding their investments in dematerialized form and appointment of custodian

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# Background

SEBI (Alternative Investment Funds) Regulations, 2012 (“AIF Regulations”) have been amended and notified on **January 05, 2024**, with respect to AIFs holding their investments in dematerialized form and appointment of custodian.

## Brief

### A Holding investments of AIFs in dematerialised form

- With effect From **October 1, 2024**, all investments by **Alternative Investment Funds (AIFs)** must be held in dematerialized form, regardless of whether the investment is made directly in the investee company or acquired from another entity.
- The investments made by an AIF prior to **October 01, 2024**, are exempted from the requirement of being held in dematerialized form, except in the following cases:
  1. Investee company of the AIF has been mandated under applicable law to facilitate dematerialisation of its securities
  2. The AIF, on its own, or along with other SEBI registered intermediaries/entities which are mandated to hold their investments in dematerialized form, exercises control over the investee company.
- The investments made by an AIF prior to **October 01, 2024**, which are covered under conditions as specified in **point 1 and point 2 above**, shall be held in dematerialized form by the AIF **on or before January 31, 2025**
- The requirement of holding investments in dematerialized form does not apply to schemes of AIF schemes whose tenure ending on or before January 31, 2025, and those Scheme of an AIF which is in extended tenure as on of the date of this circular ie. **12th January 2024**

## B Appointment of Custodian for AIFs

- Schemes of AIF must appoint a custodian prior to the date of first investment of the scheme
- Existing schemes of **Category I and II AIFs with a corpus less than equal to INR 500 crore and, holding at least one investment as on date of this circular, are required to appoint a custodian by January 31, 2025.**
- For AIFs with custodians associated with their manager or sponsor, managers must ensure compliance **with Regulation 20(11A) of AIF Regulations on or before January 31, 2025**

## C Reporting of investments of AIFs under custody

- The **Standard Setting Forum for AIFs (SFA)**, in consultation with SEBI, will develop implementation standards for reporting AIF investments data that are under custody with the custodian
- These standards will outline the format and modalities of reporting of data by **the AIF managers to custodians and subsequently to SEBI.**
- Managers and custodians must adopt and adhere to these standards, published on industry association websites (IVCA, PE VC CFO Association, and Trustee Association of India) **within 60 days of this circular's issuance.**

### Notes

- Trustees/sponsors must ensure the **Compliance Test Report** prepared by managers includes adherence to this circular.
- AIFs must include the required information in the **quarterly reporting format** on the **SEBI Intermediary Portal and AIF Managers** should ensure the submission of the necessary information when **filing the quarterly report with SEBI.**

## Impact

- These changes aim to bring about a more robust and streamlined framework for AIF operations, fostering investor confidence and regulatory compliance.



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