



# Investments in Alternative Investment Funds (AIFs)

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# Background

The RBI released a notification on December 19, 2023, on "Investments in Alternative Investment Funds (AIFs).

## Brief

1. Regulated entities (REs) make investments in units of AIFs as part of their regular investment operations. However, certain transactions of REs involving AIFs that raise regulatory concerns have come to our notice. These transactions entail substitution of direct loan exposure of REs to borrowers, with indirect exposure through investments in units of AIFs
2. In order to address concerns relating to possible evergreening through this route, it is advised as under-
  - REs shall not make investments in any scheme of AIFs which has downstream investments either directly or indirectly in a debtor company of the RE (The debtor company of the RE refers to any company the RE has given a loan to or invested in within the past 12 months).
  - If an AIF scheme, in which RE is already an investor, makes a downstream investment in any such debtor company, then the RE shall liquidate its investment in the scheme within 30 days from the date of such downstream. If REs has already invested into such schemes having downstream investment in their debtor companies as on date, The 30-day period for liquidation shall be counted from date of issuance of this circular i.e. – 19th December 2023
  - If REs cannot liquidate their investments within the prescribed time limit, they are required to make a 100 % provision on such investments.
3. Investment by REs in the subordinated units of any AIF scheme with a 'priority distribution model' shall be subject to full deduction from RE's capital funds. ('Priority distribution model' shall have the same meaning as specified in the SEBI circular SEBI/HO/AFD1/PoD/P/CIR/2022/157 dated November 23, 2022)

## ■ Notes –

### “Regulated Entities” (REs) means

1. All Scheduled Commercial Banks (SCBs)/ Regional Rural Banks (RRBs)/ Local Area Banks (LABs)/ All Primary (Urban) Co-operative Banks (UCBs) /State and Central Co-operative Banks (St CBs / CCBs) and any other entity which has been licensed under Section 22 of Banking Regulation Act, 1949, which as a group shall be referred as ‘banks’
2. All India Financial Institutions (AIFIs)
3. All Non-Banking Finance Companies (NBFCs), Miscellaneous Non-Banking Companies (MNBCs) and Residuary Non-Banking Companies (RNBCs)
4. Asset Reconstruction Companies (ARCs)
5. All Payment System Providers (PSPs)/ System Participants (SPs) and Prepaid Payment Instrument Issuers (PPI Issuers)
6. All authorized persons (APs) including those who are agents of Money Transfer Service Scheme (MTSS), regulated by the Regulator.

## Impact

These changes aim to prevent REs from indirectly replacing direct loans with AIF investments and might impact how they plan and manage their investments in these funds



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