

MODALITIES FOR LAUNCHING LIQUIDATION SCHEME AND FOR DISTRIBUTING THE INVESTMENTS OF ALTERNATIVE INVESTMENT FUNDS (AIFS) IN-SPECIE

June 21, 2023

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BACKGROUND

On June 15, 2023, SEBI amended Regulation 29 – Winding Up and notified Regulation 29A – Liquidation Scheme under AIF Regulations, to provide flexibility to AIFs to deal with investments of their schemes which are not sold due to lack of liquidity during the winding up process.

BRIEF

The Investments which are not sold due to lack of liquidity during the winding up process shall be dealt with in two manners i.e
a. Liquidation Scheme b. In-specie distribution

Process to be followed in case of both Liquidation Scheme and In-specie distribution:

Investors Consenting for Liquidation Scheme (LS) /In-specie distribution (ISD) (Min 75% by Value)

- ✓ **Value of sale of unliquidated investments** by Original Scheme to Liquidation Scheme/in-specie distribution:
 - Bid Value – If arrangement for Bidding is made.
 - One Rupee – If arrangement for Bid is not made.

Timing of LS/ISD

Before Expiry of tenure of Original Scheme

Compulsory ISD

- **Failure** to obtain consent of 75% investors by Value
- Provided that if **compulsory in-specie distribution** not accepted by investors shall be written off.

Investors Dissenting for Liquidation Scheme (LS) /In-specie distribution (ISD) (Max 25% by Value)

Option for Exit

To remaining **dissenting investors** by IM through arrangement for bidding of sale of unliquidated Investments of Min 25% of value of each unliquidated investment

Dissenting Investors

shall not be a relative of Bidder.

Valuation of Unliquidated Investments

By 2 Independent Valuers

SOURCE : SEBI CIRCULAR - SEBI/HO/AFD/PoD-I/CIR/2023/98

Note 1 :

Important consideration for launching Liquidation Scheme

- ✓ **Scheme Name** – The word “Liquidation Scheme” shall be included.
- ✓ **Units of Liquidation Scheme** – Indirectly allotted to unit holders of original investors.
- ✓ **Exemption** – From obtaining SEBI approval on PPM.
- ✓ **Tenure**
 - Start from the date of filing PPM with SEBI
 - Max Tenure - The Tenure of the Original Scheme
 - Extension not allowed

Note 2 :

The provisions of the Benchmarking and investors disclosures requirement as specified in the circular is required to be complied with.

Note 3 :

The AIF manager, trustee, and key management personnel are accountable for ensuring compliance and must submit the circular’s compliance report on the SEBI SI Portal.

IMPACT

The Liquidation Scheme/In-specie distribution simplifies the winding up process of AIFs/Schemes in market having lack of liquidity. It empowers Fund Managers with informed decision-making and enables regulators to effectively monitor AIF durations.

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