

Relaxation in timelines for holding AIFs' investments in dematerialised form

February 14, 2025



Disclaimer - This document is neither a legal interpretation nor a statement of the SEBI's directive. All information is posted merely for educational and informational purposes. It is not intended as a substitute for professional advice. Should you decide to act upon any information in this document, you do so at your own risk.

Background on the Circular

The SEBI (Alternative Investment Funds) Regulations, 2012 ("AIF Regulations") were amended and notified on January 5, 2024, introducing requirements for AIFs to hold their investments in dematerialised form. Subsequently, SEBI's January 12, 2024 circular, later incorporated into Chapter 21 of the Master Circular for AIFs (dated May 7, 2024), established specific timelines for AIFs to comply with this dematerialisation requirement.

Brief on the Circular

- I. Any investment made by an AIF on or after July 1, 2025, must be held in dematerialised form, regardless of whether it is a direct investment or acquired from another entity.
- II. Investments made by an AIF before July 1, 2025, are exempt from dematerialisation, except in the following cases :
 - a) the investee company of the AIF has been mandated under applicable law to facilitate dematerialisation of its securities;
 - b) the AIF, along with SEBI-registered entities, which are mandated to hold their investments in dematerialised form, exercises control over the investee company.
- III. Investments made by an AIF prior to July 01, 2025 which are covered under conditions as specified in Para II a) and Para II b) above, shall be held in dematerialised form by the AIF on or before October 31, 2025.
- IV. The dematerialisation requirement does not apply to AIF schemes whose tenure (excluding permissible extensions) ends on or before October 31, 2025, or schemes already in extended tenure as of February 14, 2025.
- V. The trustee or sponsor of the AIF must ensure that the Compliance Test Report, prepared under Chapter 15 of SEBI's AIF Master Circular, confirms adherence to these dematerialisation provisions.

Impact on the Circular

The SEBI circular mandating dematerialisation of AIF investments enhances transparency, security, and regulatory oversight in the alternative investment space. It reduces risks associated with physical securities, improves liquidity, and aligns AIFs with broader market reforms. While ensuring better investor protection, it may pose operational challenges for existing funds, especially those holding illiquid or unlisted assets. The phased timelines provide some flexibility, but AIFs must adapt swiftly to ensure compliance



Visit Beacon Research Webpage to get more updates like these

www.beacontrustee.co.in/research

Follow Us On

