

SYNOPSIS OF SEBI (AIF) (SECOND AMENDMENT) REGULATIONS, 2023

June 15, 2023



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- SEBI notifies a new category of Alternative Investment Funds known as specified Alternative Investment Fund
- SEBI modifies the eligibility criteria of the key investment team of the Manager of the Alternative Investment Fund
- Alternative Investment Funds shall issue units in dematerialized form for taking investments
- Winding up process in situations where selling of investments at the end of the tenure becomes challenging due to lack of liquidity
- Approval of the unitholders shall be required for buying/selling investment from certain persons
- Every AIF shall have a Compliance Officer who shall be responsible for monitoring compliance
- SEBI modifies the valuation procedure and of the methodology for valuing assets
- Corporate Debt Market Development Fund

SEBI notifies a new category of Alternative Investment Funds known as Specified Alternative Investment Fund

PREVIOUS NORMS

AIFs must register under one of three categories:

- ✓ Category I
- ✓ Category II
- ✓ Category III

NEW NORMS

A new registration category called **Specified AIF** has been added.

IMPACT

The registration of any new specific fund will now fall under the Specified AIF category, and as a result, the regulator may not introduce any new categories in the future

SEBI modifies the **eligibility criteria of the key investment team** of the Manager of the Alternative Investment Fund

PREVIOUS NORMS

Minimum 1 member having **5 years of experience** in Fund/Asset/Portfolio Management/buying & Selling of Securities


NEW NORMS

Minimum 1 member having **relevant certification** as specified by SEBI

IMPACT

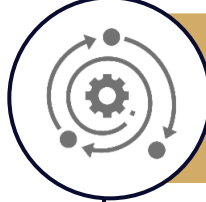
The removal of the 5-year experience requirement by at least one member of the IM's Key Investment Team in fund / asset / portfolio management or securities trading, replaced by the attainment of relevant certification, will encourage aspiring IMs to enter and explore the AIF field.

Alternative Investment Funds shall issue **units in dematerialized form** for taking investments



NEW NORMS

The AIF must issue **units in dematerialized form** as per the Board's specified conditions.



IMPACT

The modification aims to enhance transparency and facilitate monitoring and administration by stakeholders while reducing operational and fraud risks. It also enables smoother transfer of securities and reduces paperwork.

Winding up process in situations where selling of investments at the end of the tenure becomes challenging due to **lack of liquidity**

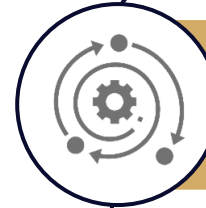


NEW NORMS

During the liquidation period of the Scheme, the AIF may distribute unsold investments having **lack of Liquidity** to investors **in-spiece** or **sell them to a liquidation scheme** with the approval of 75% of investors, as per the Board's specified conditions

Notes :

- ✓ The AIF can launch a liquidation scheme with fixed tenure by filing a PPM with the Board through a MB.
- ✓ The Liquidation scheme shall accept any fresh commitments or make any new investments.



IMPACT

The implementation of the Liquidation Scheme has simplified the process of winding up AIFs/Schemes in situations where there is lack of liquidity in the market. This enables Fund Managers to make informed decisions and allows regulators to effectively monitor the duration of AIFs.

- ✓ **Liquidation period** means a period of one year following the expiry of tenure or extended tenure of the scheme for fully liquidating the scheme of an Alternative Investment Fund
- ✓ **Liquidation Scheme** means a close ended scheme launched by an Alternative Investment Fund only for the purpose of liquidating the unliquidated investments purchased from its scheme, whose tenure has expired."

Approval of the unitholders shall be required for buying/selling investment from certain persons

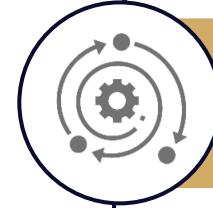


NEW NORMS

Approval of 75% of investors is required to buy or sell investments from or to associates, schemes of AIFs managed by its Manager/Sponsor/associates, or an investor committing at least 50% of the corpus.

Notes :


While obtaining approval from investors, the investor committing at least 50% of Corpus as mentioned above shall be excluded from the voting process.



IMPACT

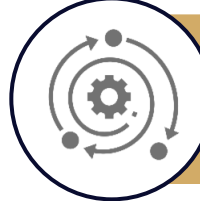
Obtaining approval from 75% of Unit holders by value before buying or selling investments directly/indirectly to/from connected persons will ensure greater transparency and safeguard the interest of investors in the AIF.

Every AIF shall have a **Compliance Officer** who shall be responsible for monitoring compliance



NEW NORMS

The Manager must appoint a Compliance Officer meeting the **eligibility criteria** as set by the Board who will be responsible for monitoring compliance with regulations and shall report the instances of non-compliance within seven working days to the Board.



IMPACT

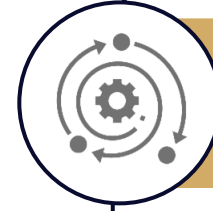
The appointment of Compliance Officer having appropriate qualification for monitoring the compliances in respect of law will enhance the regulatory oversight and would promote a culture of compliance within AIFs.

SEBI modifies the **valuation procedure** and of the methodology for valuing assets



NEW NORMS

To ensure accurate valuations, the Manager must appoint an **independent valuer who meets the eligibility criteria set by the Board**. The valuer must follow the Board's guidelines for computing and carrying out valuations. If established policies do not result in fair valuations, the Manager must deviate and explain why. The deviation and rationale must be reported to the trustee, Board, and investors.



IMPACT

The importance of independent valuation, standardized valuation methods, accountability of the Manager, and transparent reporting shall ensure fair and accurate valuation of the AIF's investments.

Corporate Debt Market Development Fund (CDMDF) [Chapter III C]

OBJECTIVE	In periods of market stress or dislocations, the CDMDF will serve as a safety net, providing support for the acquisition of investment-grade corporate debt securities.		
CONSTITUTION	To be set up as a Registered TRUST	TENURE	Tenure will be of 15 years
SUBSCRIBERS	AMCs and the specified debt-oriented schemes of mutual funds.	CONTINUING INTEREST	The Manager or Sponsor shall have a continuing interest in the CDMDF of not less than INR 5 Cr..
INVESTMENTS	<p>Market Dislocation – Purchase of corporate debt securities of max 5 yrs with no possibility of default</p> <p>Other Market Dislocation – No foreign investment & max. 5% investment in domestic companies</p>		
DISCLOSURES	Disclose portfolio to unitholders every 2 weeks & Net Asset Value on a daily basis		
FIDUCIARY RESPONSIBILITY	CDMDF shall appoint a trustee company, Governance Committee, subject to such terms and conditions as specified by SEBI from time to time.		
IMPACT	<ul style="list-style-type: none"> • Boost in confidence to the corporate bond market • Improved liquidity in the secondary market • Ensures proper governance and regulatory oversight • By providing a mechanism to support the purchase of investment-grade corporate debt securities, the fund helps instill trust among investors, encouraging their participation in the market. 		