



## SEBI notifies SEBI (Alternative Investment Funds) Regulations 2012

1. The SEBI (Alternative Investment Funds) Regulations, 2012 (“AIF Regulations”) have been notified today. The [AIF Regulations](http://www.sebi.gov.in/) are available on the SEBI website <http://www.sebi.gov.in/>
2. AIFs Regulations endeavour to extend the perimeter of regulation to unregulated funds with a view to systemic stability, increasing market efficiency, encouraging formation of new capital and consumer protection. Salient features of the AIF Regulations, inter alia, include the following:

### Scope of the Regulations and applicability to existing funds

- a. All AIFs whether operating as Private Equity Funds, Real Estate Funds, Hedge Funds, etc. must register with SEBI under the AIF Regulations.
- b. SEBI (Venture Capital Funds) Regulations, 1996 (“VCF Regulations”) have been repealed. However, existing VCFs shall continue to be regulated by the VCF Regulations till the existing fund or scheme managed by the fund is wound up. Existing VCFs, however, shall not increase the targeted corpus of the fund or scheme as it stands on the day of Notification of these Regulations. Such VCFs may also seek re-registration under AIF regulations subject to approval of 66.67% of their investors by value.
- c. Existing funds not registered under the VCF Regulations will not be allowed to float any new scheme without registration under AIF Regulations. However, schemes floated by such funds before coming into force of AIF Regulations, shall be allowed to continue to be governed till maturity by the contractual terms, except that no rollover/ extension or raising of any fresh funds shall be allowed.
- d. Existing funds not registered under the VCF Regulations which seek registration but are not able to comply with all provisions of AIF Regulations may seek exemption from the Board from strict compliance with the AIF Regulations.

### Categories of funds

The Regulation seeks to cover all types of funds broadly under 3 categories. An application can be made to SEBI for registration as an AIF under one of the following 3 categories:-

i. **Category I AIF** – those AIFs with positive spillover effects on the economy, for which certain incentives or concessions might be considered by SEBI or Government of India or other regulators in India; and which shall include Venture Capital Funds, SME Funds, Social Venture Funds, Infrastructure Funds and such other Alternative Investment Funds as may be specified. These funds shall be close ended, shall not engage in leverage and shall follow investment restrictions as prescribed for each category. Investment restrictions for VCFs are similar to restrictions in the existing VCF Regulations.

ii. **Category II AIF** – those AIFs for which no specific incentives or concessions are given by the government or any other Regulator; which shall not undertake leverage other than to meet day-to-day operational requirements as permitted in these Regulations; and which shall include Private Equity Funds, Debt Funds, Fund of Funds and such other funds that are not classified as category I or III. These funds shall be close ended, shall not engage in leverage and have no other investment restrictions.

iii. **Category III AIF** – those AIFs including hedge funds which trade with a view to make short term returns; which employs diverse or complex trading strategies and may employ leverage including through investment in listed or unlisted derivatives. These funds can be open ended or close ended. Category III funds shall be regulated through issuance of directions regarding areas such as operational standards, conduct of business rules, prudential requirements, and restrictions on redemption, conflict of interest as may be specified by the Board.

#### **Other salient features**

- a. The Alternative Investment Fund shall not accept from an investor an investment of value less than rupees one crore. Further, the AIF shall have a minimum corpus of Rs. 20 crore.
- b. The fund or any scheme of the fund shall not have more than 1000 investors.
- c. The manager or sponsor for a Category I and II AIF shall have a continuing interest in the AIF of not less than 2.5% of the initial corpus or Rs.5 crore whichever is lower and such interest shall not be through the waiver of management fees.
- d. For Category III Alternative Investment Fund, the continuing interest shall be not less than 5% of the corpus or rupees ten crore, whichever is lower.
- e. Category I and II AIFs shall be close-ended and shall have a minimum tenure of 3 years. However, Category III AIF may either be close-ended or open-ended.
- f. Schemes may be launched under an AIF subject to filing of information memorandum with the Board along with applicable fees.
- g. Units of AIF may be listed on stock exchange subject to a minimum tradable lot of rupees one crore. However, AIF shall not raise funds through Stock Exchange mechanism.
- h. Category I and II AIFs shall not be permitted to invest more than 25% of the investible funds in one Investee Company. Category III AIFs shall invest not more than 10% of the corpus in one Investee Company.
- i. AIF shall not invest in associates except with the approval of 75% of investors by value of their investment in the Alternative Investment Fund.
- j. All AIFs shall have QIB status as per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009.
- k. The Regulations provide for transparency and disclosures and mechanism for avoidance of conflict of interest.

Mumbai

May 21, 2012

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