



Capital Markets Bulletin

May 2024

Amendments in relation to the Alternative Investment Funds (AIF)

- **Encumbrance on investment in equity of infrastructure companies**
 - SEBI has provided a framework for Category I and II AIFs permitting them to create encumbrance on their holding of equity of investee companies engaged in the business of development, operation or management of infrastructure projects only for the purpose of borrowing by such investee company.
 - Detailed framework of the same can be accessed at [link](#).
- **Conditions specified for AIFs for dealing with unliquidated investments**
 - The AIF regulations had been amended by discounting with the liquidation scheme and thereby introducing the concept of dissolution period.
 - During the liquidation period, the AIF shall:
 - Fully liquidate investments that can be liquidated.
 - For the unliquidated investments:
 - Either distribute unsold investments "in-specie" to investors or opt for dissolution period after obtaining approval of at least 75% of the investors by value of their investment.
 - In case the approval is not obtained, then such investments shall automatically be distributed to investors in-specie.
 - In relation to the same, the following conditions are specified:

Sr. No.	Conditions
1.	Before seeking the consent from investors, the AIF manager shall: <ul style="list-style-type: none"> • Shall try to arrange bids for at least 25% of such investments in the scheme. • To disclose proposed tenure of the dissolution period, details of unliquidated investments, an indicative range of bid value, the valuation of such investments, etc.
2.	Intimation to SEBI regarding investor consent and their decision to enter dissolution period prior to the expiry of liquidation period.
3.	In case the AIF manager arranges a successful bid of 25% or more of unliquidated investments: <ul style="list-style-type: none"> • Dissenting investors can choose to fully exit the scheme using proceeds from the 25% sale (except for the bidders or investors who are investor in the scheme) • Any remaining funds from the sale can be used for pro-rata exits by non-dissenting investors who choose to leave later.
4.	If the AIF fails to arrange bid for a minimum of 25% of the value of unliquidated investments, the AIF can still opt for dissolution period if it the required consent is obtained.
5.	To track the manager's performance accurately, the value of unsold investments entering the dissolution period is set to: <ul style="list-style-type: none"> • The bid value if at least 25% of the investments are sold. • INR 1 if the manager fails to arrange a bid for 25% of the value of unliquidated investments.

Sr. No.	Conditions
6.	The AIF manager's performance during the dissolution period shall be tracked and reported separately.
7.	No management fee shall be charged by the manager during dissolution period.

- AIF schemes whose liquidation period expires on or before 24th July 2024 (within 3 months of the amendment regulations) shall be granted a fresh liquidation period till 24th April 2025.
- Discontinuation of the option of launching liquidation scheme:
 - No new liquidation schemes can be launched by AIFs after 25th April 2024.
 - Any liquidation schemes launched before 25th April 2024 shall continue to be governed under existing regulations until they are wound up.

- **Standardisation in reporting format of PPM audit reports**

- SEBI has mandated AIFs to carry out an annual audit of compliance with terms of PPM and submit such audit report with the trustee or board or DP of the AIFs. Accordingly, a standardized format has been introduced for such audit reports.
- The key takeaways from the circular are:
 - The PPM audit reports shall be submitted to SEBI by AIFs online on the SEBI intermediary portal as per the new format.
 - Audit of sections of PPM relating to 'Risk Factors', 'Legal, Regulatory and Tax Considerations', 'Track Record of First Time Managers', 'Illustration of Fees and Expenses' and 'Glossary and Terms' shall be optional.
 - The reporting requirement shall apply to the audit reports for FYs ending 31st March 2024 onwards.

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By:

Cignas from N A Shah Advisors

Address: B 41-45, Paragon Centre, P B Marg, Worli, Mumbai 400013
Tel: +91 22 4156 9000, Email: info@nashahadvisors.com