

CIRCULAR

SEBI/HO/AFD/PoD-I/P/CIR/2024/026

April 26, 2024

To,

All Alternative Investment Funds

Sir/Madam,

Sub: Flexibility to Alternative Investment Funds (AIFs) and their investors to deal with unliquidated investments of their schemes

1. Securities and Exchange Board of India (Alternative Investment Funds) (Second Amendment) Regulations 2024 (“AIF Regulations Amendment”), have been notified on April 25, 2024, *inter alia*, to provide additional flexibility to AIFs and their investors to deal with unliquidated investments of their schemes. Copy of the notification is available at [link](#).

2. Dissolution Period:

2.1. Regulation 2(1)(ia) of AIF Regulations states as under –

“dissolution period” means the period following the expiry of the liquidation period of the scheme for the purpose of liquidating the unliquidated investments of the scheme of the Alternative Investment Fund.”

2.2. Regulation 29(9) of AIF Regulations states as under –

“Notwithstanding anything contained in sub-regulation (7), during liquidation period of a scheme, an Alternative Investment Fund may distribute investments of a scheme which are not sold due to lack of liquidity, in-specie to the investors or enter into the dissolution period, after obtaining approval of at least seventy five percent of the investors by value of their investment in the scheme of the Alternative Investment Fund, in the manner and subject to conditions specified by the Board from time to time.

Provided that in the absence of consent of unit holders for exercising the options under sub-regulation (9) during liquidation period, such investments of the scheme of the Alternative Investment Fund shall be dealt with in the manner as may be specified by the Board from time to time.”

2.3. In this regard, the following conditions are specified –

2.3.1. Before seeking the requisite investor consent, the AIF / manager shall arrange bid for a minimum of 25% of the value of its unliquidated investments. The bid shall be arranged for units representing consolidated value of all unliquidated investments of the scheme’s investment portfolio. The manager may arrange bids from multiple bidders in this regard.

- 2.3.2. The AIF / manager shall disclose the following to investors prior to seeking their consent –
- i. The proposed tenure of the Dissolution Period, details of unliquidated investments, value recognition of the unliquidated investments for reporting to Performance Benchmarking Agencies, etc.
 - ii. An indicative range of bid value, along with the valuation of the unliquidated investments carried out by two independent valuers.
- 2.3.3. Prior to expiry of the Liquidation Period, the AIF / manager shall intimate SEBI about obtaining the investor consent and the investors' decision to enter into Dissolution Period.
- 2.3.4. If the AIF / manager successfully arranges bid for a minimum of 25% of the value of unliquidated investments of the scheme, the dissenting investors of the scheme shall be offered an option to fully exit the scheme out of the 25% bid arranged by the AIF. After exercising the exit option by aforesaid dissenting investors, any unsubscribed portion of the bid may be used to provide pro-rata exit to non-dissenting investors should they opt for the same.
- 2.3.5. If the AIF / manager fails to arrange bid for a minimum of 25% of the value of unliquidated investments of the scheme, the AIF can still opt for Dissolution Period, provided that it obtains consent of at least 75% of the investors by value of their investment in the scheme of the AIF.
- 2.3.6. If the bidder or its related parties are investor(s) in the scheme, such investor(s) shall not be provided exit from the scheme out of the bid. ["Related party" shall have the same meaning as provided in Regulation 2(1)(zb) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.]
- 2.3.7. At the time of entering into Dissolution Period, for appropriately capturing the track record of performance of the manager and for reporting the same to Performance Benchmarking Agencies, the value of such unliquidated investments of the scheme shall be calculated in the following manner –
- i. Based on bid value, if the AIF / manager arranges bid for a minimum of 25% of the value of unliquidated investments of the scheme; or
 - ii. One Rupee, if the AIF / manager fails to arrange bid for a minimum of 25% of the value of unliquidated investments of the scheme.

- 2.3.8. The performance of the manager during the Dissolution Period shall be captured separately and reported to Performance Benchmarking Agencies, distinct from the performance of the scheme before entering into Dissolution Period.
- 2.3.9. If the scheme of the AIF fails to sell the unliquidated investments during the Dissolution Period, such investments shall be mandatorily distributed in-specie to the investors. It is clarified that no further extension or Liquidation Period shall be available to these schemes after the expiry of Dissolution Period.
- 2.3.10. The manager of the AIF shall not charge management fee during the Dissolution Period.

3. Mandatory in-specie distribution of unliquidated investments:

- 3.1. With regard to the proviso of Regulation 29(9) mentioned at para 2.2 above, the following is specified –
- 3.1.1. During the Liquidation Period, if the AIF fails to obtain requisite investor consent for entering into Dissolution Period or in-specie distribution, then the unliquidated investments shall be mandatorily distributed to investors in-specie, without requirement of obtaining consent of 75% of investors by value of their investment in the scheme of the AIF.
- 3.1.2. The value of such investments distributed in-specie shall be recognised at one rupee for capturing the track record of performance of the manager and for reporting to Performance Benchmarking Agencies.
- 3.1.3. In case any investor is not willing to take in-specie distribution of unliquidated investments, such investments shall be written off.

4. One-time flexibility to schemes of AIFs whose Liquidation Period has expired, to deal with unliquidated investments

- 4.1. Regulation 29(9A) of AIF Regulations states as under –

“If the liquidation period for a scheme of an Alternative Investment Fund has expired or is expiring within three months from the date of notification of the Securities and Exchange Board of India (Alternative Investment Funds) (Second Amendment) Regulations, 2024, such schemes may be granted an additional liquidation period, subject to such conditions and in the manner as may be specified by the Board.

Provided that the additional liquidation period granted under sub-regulation (9A) shall be without prejudice to the issuance of any direction or measures in accordance with the provision of the Act and regulations framed thereunder.”

4.2. In this regard, the following is specified –

4.2.1. Schemes of AIFs, whose Liquidation Period has expired or shall expire on or before July 24, 2024 (i.e. within three months from the date of notification of AIF Regulations Amendment), shall be granted a fresh Liquidation Period till April 24, 2025.

4.2.2. The aforesaid fresh Liquidation Period shall be available only to such schemes that do not have any pending investor complaint with respect to non-receipt of funds / securities as on April 25, 2024, i.e., the date of notification of AIF Regulations Amendment.

In case a scheme has pending investor complaint(s) with respect to non-receipt of funds / securities, such scheme may avail the fresh Liquidation Period upon resolution of investor complaint(s). However, the fresh Liquidation Period shall be available only from the date of resolution of the complaint till April 24, 2025.

4.2.3. During the fresh Liquidation Period, the scheme shall fully liquidate its investments, or distribute the investments in-specie or opt for the Dissolution Period.

5. Responsibility for compliance:

5.1. The manager, trustee and key management personnel of AIF and manager shall be responsible for compliance with the procedure prescribed above.

5.2. The manager, upon exercising the options mentioned above, shall submit report on compliance with the provisions of this circular on SEBI Intermediary Portal (www.siportal.sebi.gov.in) in the format as specified therein.

5.3. The trustee/ sponsor, as the case may be, shall ensure that the 'Compliance Test Report' prepared by the manager in terms of Chapter 15 of SEBI Master Circular for AIFs (Circular No. SEBI/HO/AFD/PoD1/P/CIR/2023/130 dated July 31, 2023), includes compliance with the provisions of this circular.

6. Discontinuation of the option of launching Liquidation Scheme

6.1. Regulation 29A(8) of AIF Regulations states as under –

“No Alternative Investment Fund shall launch any new liquidation scheme under this regulation after the notification of the Securities and Exchange Board of India (Alternative Investment Funds) (Second Amendment) Regulations, 2024:

Provided that any liquidation scheme launched by an Alternative Investment Fund prior to the notification of the Securities and Exchange Board of India (Alternative Investment Funds) (Second Amendment) Regulations, 2024 shall continue to be governed by regulation 29A and the other provisions of these regulations till such schemes are wound up.”



6.2. In this regard, the following is specified –

6.2.1. Any Liquidation Scheme launched by an AIF prior to April 25, 2024 (i.e. the date of notification of AIF Regulations Amendment) shall continue to be governed by SEBI Circular No. SEBI/HO/AFD/PoD1/CIR/2023/098 dated June 21, 2023 on 'Modalities for launching Liquidation Scheme and for distributing the investments of AIFs in-specie', till such schemes are wound up.

7. This circular shall come into force with immediate effect.
8. This circular is issued with the approval of the competent authority.
9. This circular is issued in exercise of powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.
10. The circular is available on SEBI website at www.sebi.gov.in under the categories "Legal framework - Circulars" and "Info for - Alternative Investment Funds".

Yours faithfully,

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