



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

CIRCULAR

CIR/IMD/DF/10/2013

July 29, 2013

To
All Alternative Investment Funds
All custodians of Category III Alternative Investment Funds

Dear Sir / Madam,

Sub: Operational, Prudential and Reporting Norms for Alternative Investment Funds (AIFs)

1. SEBI (Alternative Investment Funds) Regulations, 2012 (“AIF Regulations”) were notified on May 21, 2012. Regulations 18 (c) and (d) of the SEBI (Alternative Investment Funds) Regulations, 2012 (“AIF Regulations”) state as under

Reg 18(c)- ‘Category III Alternative Investment Funds may engage in leverage or borrow subject to consent from the investors in the fund and subject to a maximum limit, as may be specified by the Board

Reg 18(d)- ‘Category III Alternative Investment Funds shall be regulated through issuance of directions regarding areas such as operational standards, conduct of business rules, prudential requirements, restrictions on redemption and conflict of interest as may be specified by the Board.’

2. Further, under Regulation 28 of the said Regulations, the Board may at any time call upon the Alternative Investment Fund to file such reports, as the Board may desire, with respect to the activities carried on by the Alternative Investment Fund.
3. In this regard, it is specified as under:

3.1 Risk Management and Compliance

All Category III AIFs which employ leverage shall:

- i. have a comprehensive risk management framework supported by an independent risk management function, appropriate to the size, complexity and risk profile of the fund.
- ii. have a strong and independent compliance function appropriate to the size, complexity and risk profile of the fund supported by sound and controlled

operations and infrastructure, adequate resources and checks and balances in operations.

- iii. maintain appropriate records of the trades/transactions performed and such information should be available to SEBI, whenever sought
- iv. provide full disclosure and transparency about conflicts of interest and how they manage them from time to time to investors in accordance with Regulation 21 of the AIF Regulations and any other guidelines as may be specified by SEBI from time to time. Such conflicts shall be disclosed to the investors in the placement memorandum and by separate correspondences as and when such conflicts may arise. Such information shall also be disclosed to SEBI as and when required by SEBI.

3.2 Submission of reports to SEBI

- i. Under Regulation 28 of the AIF Regulations, All AIFs shall submit periodical reports to SEBI relating to their activity as an Alternative Investment Fund.
- ii. Category I and II AIFs and the Category III AIFs which do not undertake leverage shall submit report to SEBI on a quarterly basis in the format as specified in **Annexure I**.
- iii. Category III AIFs which undertake leverage shall submit a report to SEBI on a monthly basis in the format as specified in **Annexure II**.
- iv. Reports shall be submitted by AIFs online through the online reporting system provided by SEBI. However, till such online system is made available, reports shall be sent by email to aifreporting@sebi.gov.in. Excel sheet to be filled in this regard is available on SEBI website under the section 'Info for' → 'Alternative Investment Funds'. Once the online system is made available by SEBI, no reports shall be sent by email. Further, AIFs are advised to note that no physical reports shall be filed with SEBI.
- v. The reports for the period upto the quarter ended June 30, 2013 for AIFs which are already registered with SEBI shall be sent vide email to the aforesaid email address within one month from the date of this circular.
- vi. Reports shall be submitted within 7 calendar days from the end of quarter/ end of month as the case maybe.

3.3 Redemption norms

- i. These norms shall apply to open ended Category III AIFs for all their existing and new schemes.

- ii. The Manager of such AIFs shall ensure adequate and sufficient degree of liquidity of the scheme/ fund in order to allow it, in general, to meet redemption obligations and other liabilities.
- iii. the Manager shall establish, implement and maintain an appropriate liquidity management policy and process to ensure that the liquidity of the various underlying assets is consistent with the overall liquidity profile of the fund/scheme while making any investment.
- iv. The Manager of such AIFs shall clearly disclose the possibility of suspension of redemptions in exceptional circumstances to investors in the placement memorandum.
- v. Suspension of redemptions by the Manager shall be justified only:
 1. in exceptional circumstances provided that such suspension is exclusively in the best interest of investors of the AIF , or
 2. if the suspension is required under the AIF regulations or required by SEBI.
- vi. The Manager of such AIFs shall build the operational capability to suspend redemptions in an orderly and efficient manner. During the suspension of the redemptions, the Manager shall not accept new subscriptions.
- vii. The decision by the Manager to suspend redemptions, in particular the reasons for the suspension and the planned actions shall be appropriately documented and communicated to SEBI and to the investors.
- viii. The suspension shall be regularly reviewed by the Manager. The Manager shall take all necessary steps in order to resume normal operations as soon as possible having regard to the best interest of investors.
- ix. The Manager of such AIFs shall keep SEBI and investors informed about the actions undertaken by the manager throughout the period of suspension. The decision to resume normal operations shall also be communicated to SEBI and the investors as soon as possible.

3.4 Prudential requirements

All Category III AIFs which undertake leverage, whether through investment in derivatives or by borrowing or by any other means shall comply with the following prudential requirements:

- i. For the purpose of arriving at leverage undertaken by an AIF, leverage shall be calculated as the ratio of the exposure to the Net Asset Value of the AIF.

- ii. Leverage shall be calculated as under:

$$\text{Leverage} = \frac{\text{Total exposure } \{ \text{Longs} + \text{Shorts (after offsetting as permitted)} \}}{\text{Net Asset Value (NAV)}}$$

- iii. The leverage of a Category III AIF shall not exceed 2 times of the NAV of the fund. i.e. If an AIF's NAV is Rs. 100 crore, its exposure (Longs+shorts) after offsetting positions as permitted shall not exceed Rs. 200 crore.

Calculation of exposure and NAV

- i. The total exposure of the fund for the purpose of computing leverage shall generally be the sum of the market value of all the securities/ contracts held by the fund. The total exposure at any point of time will be a sum of exposure through instruments in both the spot market and the derivative market.
- ii. Exposure shall generally be calculated as below:
1. Futures (long and short)= Futures Price * Lot Size * Number of Contracts
 2. Options bought= Option Premium Paid * Lot Size * Number of Contracts
 3. Options sold= Market price of underlying * Lot size * Number of contracts
 4. In case of any other derivative exposure, the exposure is proposed to be calculated as the notional market value of the contract
- iii. Idle cash and cash equivalents shall not be included in the calculation of total exposure. Long put positions shall be considered as short exposure and short put positions shall be considered as long exposure. Short selling of a stock through SLBM shall be treated as short exposure. Temporary borrowing arrangements which relate to and are fully covered by capital commitments from investors need not be included in calculation of leverage.
- iv. Offsetting of positions shall be allowed for calculation of leverage for transactions entered into for hedging and portfolio rebalancing as provided in the circular No. MFD/CIR/21/ 25467/2002 dated December 31, 2002 and to the extent as specified in the circular.
- v. Sum of all exposures without offsetting transactions for hedging and portfolio rebalancing shall be termed as 'gross exposure' and the ratio of such gross exposure and Net Asset Value shall be termed as 'gross leverage'.
- vi. Net Asset Value (NAV) of the AIF shall be the sum of value of all securities adjusted for Mark to market gains/losses (including cash and cash equivalents). The NAV shall exclude any funds borrowed by the AIF.
- vii. All the above restrictions/limits shall apply at the scheme-level.

Breach of leverage limits

- i. All Category III AIFs shall have adequate systems in place to monitor their exposures. It shall be responsibility of the AIFs to shall ensure that the leverage shall not exceed the prescribed limit at all times.
 - ii. All Category III AIFs shall report to the custodian on a daily basis the amount of leverage at the end of the day (based on closing prices) and whether there has been any breach of limit during the day.
 - iii. In case of a breach in limit:
 - a. Obligation of AIF:
 - i. The AIF shall send a report to the custodian in accordance with point (ii) above.
 - ii. The AIF shall send a report to all its clients before 10 a.m. on the next working day stating that there is a breach in the limit along with reasons for the same.
 - iii. The AIF shall square off the excess exposure and bring back the leverage within the prescribed limit by end of next working day. This shall however not prejudice any action that may be taken by SEBI against the AIF under SEBI (Alternative Investment Funds) Regulations, 2012 or the SEBI Act.
 - iv. A confirmation of squaring off of the excess exposure shall be sent to all the clients by the AIF by end of the day on which the exposure was squared off.
 - b. Obligation of custodian:
 - i. The custodian shall report to SEBI providing name of the fund, the extent of breach and reasons for the same before 10 a.m. on the next working day.
 - ii. A confirmation of squaring off of the excess exposure shall be sent to SEBI by the custodian by end of the day on which the exposure was squared off
4. Further, all AIFs shall ensure that all marketing documents of the fund/ scheme, if any, can be distributed on a private basis only to its proposed investors and shall be in accordance with the placement memorandum of the fund/scheme.
 5. 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.

6. This Circular is available on SEBI website at www.sebi.gov.in under the categories “Legal Framework” and “Alternative Investment Funds”.

Yours faithfully,

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Annexure I

Reporting Format for Category I AIFs, Category II AIFs and Category III AIFs which do not undertake leverage

General information	
1	Name of the AIF
2	Registration number
3	Category and sub-category of the AIF
4	Name of the sponsor
5	Name of the manager
6	Name of the Trustee
7	Name of contact person
8	Email address of contact person

Report upto/ as on the quarter ended (March/ June/ Sep/ Dec) Year

Cumulative details of the funds raised & invested by all schemes under the fund

1. Brief details of the Fund (Scheme-wise) (All figures in Rs. Crore) ¹														
Name of Scheme	Target Corpus	Total corpus as on date	Investible funds as on date	Open ended/ Closed ended	Cumulative funds raised under the scheme					Cumulative Investments made under the scheme				Tenure of the scheme (in years) ³
					At the beginning of the quarter	Additions during the quarter	Redemptions during the quarter	Temporary funding by borrowing ²	At the end of the quarter	At the beginning of the quarter	Additions during the quarter	Divestments during the quarter	At the end of the quarter	
					(a)	(b)	(c)	(d)	(a+b-c+d)	(a)	(b)	(c)	(a+b-c)	

¹ The grants received may be included in funds raised and grants provided may be included in investments.

² The net outstanding borrowing may be mentioned. If the net borrowing is negative, the negative figure may be used. If the net borrowing is negative, the amount must be entered with a '-' sign.

³ Including possible extensions. E.g. If the tenure of the scheme is 4 years, which may be extended by 2 one-year periods, enter 4+1+1. In case of open-ended funds, enter 'N/A'.

2. Cumulative net investments by the AIF as at the end of quarter (in Rs. Crore) (Scheme-wise)

Name of the scheme	In Unlisted equity shares/ equity linked instruments/LLP interest	In listed equity (excluding in listed/to be listed on SME exchange)	in Debt/ securitised debt instruments	In units of other AIFs	In liquid funds	In listed/ to be listed securities on SME exchange	Others	Total

3. For Fund of Funds, specify list of AIFs in which investment in made (Enter details only if the AIF is a Fund-of-Funds. If not, leave the fields blank.)

Name of the AIF	Category of the AIF	Cumulative net amount invested as at the end of the quarter (in Rs. Crore)

4. Maximum Investment made in a single investee company (Scheme-wise)

Name of the Scheme	Name of the investee company	Amount invested (in Rs. Crore)	Amount of investment as a % of total investible funds

5. Investment in associates, if any (Scheme-wise)

Name of the Scheme	Name of the associate	Nature of association	Cumulative net amount invested as at the end of the quarter (in Rs. Crore)

6. Categories of investors

Name of the scheme	Individual (Resident)		Corporate (Resident)		Foreign investors (excluding FVCIs)		FVCIs		Others	
	Number of investors	Amount raised from investors (in Rs. Crore)	Number of investors	Amount raised from investors (in Rs. Crore)	Number of investors	Amount raised from investors (in Rs. Crore)	Number of investors	Amount raised from investors (in Rs. Crore)	Number of investors	Amount raised from investors (in Rs. Crore)

7. Industry-wise break-up (Cumulative net investment in the sector as at end of the quarter in Rs. Crore)

Name of the scheme	List of sectors as enclosed in Annexure C		
	Sector 1	Sector 2	Sector 3

Annexure II

Reporting Format for Category III AIFs which undertake leverage

General information		
1	Name of the AIF	
2	Registration number	
3	Name of the manager	
4	Name of the sponsor	
5	Name of the Trustee	
6	Name of custodian	
7	Name of contact person	
8	Email address of contact person	

B Report upto/as at the end of month ended _____, Year

1. Brief details of the Fund (Scheme-wise) (All figures in Rs. Crore)														
Name of Scheme	Target Corpus	Total corpus as on date	Investible funds as on date	Open ended/ Closed ended	Cumulative funds raised under the scheme					Cumulative Investments made under the scheme				Tenure of the scheme (in years)
					At the beginning of the quarter	Additions during the quarter	Redemptions during the quarter	Temporary funding by borrowing ⁴	At the end of the quarter	At the beginning of the quarter	Additions during the quarter	Divestments during the quarter	At the end of the quarter	
					(a)	(b)	(c)	(d)	(a+b-c+d)	(a)	(b)	(c)	(a+b-c)	

⁴ Include only temporary borrowings which are fully covered by capital commitments. Do not include other borrowings.

2. Exposure by the AIF as at the end of month (in Rs. Crore) (Scheme-wise)

Name of the scheme	In listed equity and ETFs	Long Futures	Short futures	Long calls	Short calls	Long puts	Short puts	Cash & cash equivalents	Others	Gross Total (Sum of all exposures)

3. Leverage undertaken by the AIF (Scheme-wise)(as at the end of the month)

Name of the scheme	NAV (in Rs. crore) (1)	Gross Long positions (in Rs. Crore) (2)	Gross Short positions (in Rs. Crore) (3)	Gross leverage (No. of times) $\{(2)+(3)\}/(1)$	Exposure after offsetting transactions for hedging and portfolio rebalancing (in Rs. Crore) (4)	Leverage after offsetting transactions for hedging and portfolio rebalancing (Number of times) (4) / (1)	Total borrowing as at end of the month (in Rs. crore)

**4. Leverage as reported to custodian on daily basis (Leverage after offsetting transactions for hedging and portfolio rebalancing)
(Number of times)**

<i>Leverage as on the date of the month as reported to the custodian (E.g. If date is 1 for month of April 2013, enter leverage as on April 1, 2013)</i>	<i>Scheme 1</i>	<i>Scheme 2</i>	<i>Scheme 3</i>	<i>Scheme 4,...</i>
1				
2				
3				
4,...				

Annexure C

List of industries/ sectors:

1. IT/ ITeS
2. Telecommunication
3. Pharmaceuticals/ Biotechnology/ healthcare
4. Media/Entertainment
5. Real Estate
6. Auto/ Auto Ancillary
7. Banking and financial services (Excluding NBFCs)
8. NBFCs
9. Electrical & Engineering./ Outsourced engineering services
10. Industrial products
11. FMCG/Food and beverages
12. Energy/ Power Plants/ power generation and transmission/Non-conventional energy
13. Roads/Bridges
14. BPOs
15. Railways
16. Industrial Parks/SEZ
17. Urban Infrastructure (water supply, sanitation and sewage products)
18. Mining, exploration and refining
19. Shipping and Ports
20. Logistics
21. Education
22. Packaging
23. Textiles
24. Retail
25. Agriculture
26. Chemicals/Petrochemicals/Plastic/Rubber
27. Nanotechnology
28. Seed Research & Development
29. Dairy industry
30. Poultry industry
31. Production of bio fuels
32. R&D of new chemical entities in pharma sector
33. Hotels/Travel/ Hospitality
34. Services sector (*services not covered above*)