



भारतीय प्रतिभूति और विनियम बोर्ड Securities and Exchange Board of India

Consultation paper on investor consent for buying/selling investments from/to associates of AIFs

1. Objective:

To seek comments and inputs from stakeholders and members of public on mandating requirement of investor consent for AIFs dealing with their associates while buying or selling investments.

2. Background:

- 2.1. As per SEBI (Alternative Investment Funds) Regulations, 2012 (AIF Regulations), “associate” means a company or a limited liability partnership or a body corporate in which a director or trustee or partner or Sponsor or Manager of the AIF or a director or partner of the Manager or Sponsor holds, either individually or collectively, more than fifteen percent of its paid-up equity share capital or partnership interest, as the case may be.
- 2.2. AIFs, in their normal course of business, may deal with their associates for various purposes including investing in associates, buying/selling of securities to/from associates, availing services of associates etc.
- 2.3. With respect to dealing with associates, the following norms have been specified under AIF Regulations:
 - (i) AIF shall not invest, except with the approval of 75% of investors by value of their investment in the AIF, in (a) associates; or (b) units of AIFs managed or sponsored by its Manager, Sponsor or associates of its Manager or Sponsor.
 - (ii) Special Situation Funds and Angel funds shall not invest in associates.
 - (iii) Managers and Sponsors of AIFs shall abide by high level principles on avoidance of conflicts of interest with associated persons, as may be specified by SEBI from time to time.
 - (iv) Any fees charged to the AIF or any investee company by an associate of the Manager or Sponsor shall be disclosed periodically to the investors.

3. Issues for Consideration:

- 3.1. While AIFs have been given flexibility to deal with associates in the course of their business, there may be conflict of interest with respect to such transactions. However, presently, to address such conflict of investors, requirement of investor consent has been mandated only in case of investments in associates. With respect to availing services of associates, disclosure to investors regarding the fee being paid to associates has been mandated.



- 3.2. Similar to investment in associates, buying or selling of securities from/to associates and schemes of AIFs managed/sponsored by the same manager/sponsor or their associates may also have conflict of interest issues. Accordingly, it is desirable to extend the requirement of investor consent for buying or selling investments to/from associates and schemes of AIFs managed or sponsored by its Manager, Sponsor or their associates.
- 3.3. The issue was deliberated in meeting of Alternative Investment Policy Advisory Committee (AIPAC) held on January 20, 2023. AIPAC deliberated on the proposal and in principle agreed to mandate that AIFs must take approval of 75% of investors by value of their investment in the AIF, for buying or selling investments from/to associates; or schemes of AIFs managed/sponsored by its Manager, Sponsor or their associates.

4. Proposal:

Taking into account the recommendations of AIPAC, the following is proposed:

‘An AIF shall not buy or sell investments, except with the approval of 75% of investors by value of their investment in the AIF, from or to

- a) associates; or
- b) schemes of AIFs managed or sponsored by its Manager, Sponsor or their associates.’

5. Public Comments:

- 5.1. Public comments are invited for the aforesaid proposal. The comments / suggestions may be provided as MS Excel file as per the format given below:

Name of the person/ entity proposing comments:	
Name of the organization (if applicable):	
Contact details:	
Category: whether market intermediary/ participant (mention type/ category) or public (investor, investee company, academician etc.)	

Sr. No.	Para. no. of the consultation paper	Extract from the consultation paper	Comments / Suggestions	Rationale



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- 5.2. Kindly mention the subject of the communication as, “*Comments on Consultation paper on investor consent for buying/selling investments from/to associates of AIFs*”.
- 5.3. Comments as per aforesaid format may be sent to the following, latest by February 18, 2023, in any of the following manner:
- (i) Preferably by email, to Shri Sanjay Singh Bhati, Deputy General Manager (ssbhati@sebi.gov.in) and/or to Ms. Padma Bharathi S, Assistant Manager (padmab@sebi.gov.in); or
 - (ii) By post to:
Shri Sanjay Singh Bhati,
Deputy General Manager,
Alternative Investment Fund and Foreign Portfolio Investors Department,
Securities and Exchange Board of India, SEBI Bhavan, C4-A, G-Block,
Bandra Kurla Complex, Bandra (East), Mumbai -400051.

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