



Consultation Paper on Flexibility to Alternative Investment Funds (AIFs) in Winding up the scheme / Surrendering the Registration

1. Objective

- 1.1. The objective of this consultation paper is to seek public comments on a proposal aimed at streamlining the processes pertaining to winding up of AIF schemes and surrender of AIF registrations. These proposals are premised on the principle that while entry into the securities market is subject to specified eligibility criteria, the regulatory framework for exit, where an entity seeks to discontinue its activities, should be clear, predictable and operationally efficient.

2. Background

- 2.1. SEBI receives applications for surrender of registration of AIFs and Venture Capital Funds (VCFs) under the SEBI (Alternative Investment Fund) Regulations, 2012 (hereinafter referred as 'AIF Regulations') and the erstwhile SEBI (Venture Capital Fund) Regulation, 1996 (hereinafter referred as 'VCF Regulations') respectively.

- 2.2. Regulation 29 (7) of the AIF Regulations prescribes the following:

Within the liquidation period, the assets shall be liquidated, and the proceeds accruing to investors in the AIF or the scheme of the AIF shall be distributed to them after satisfying all liabilities.

(Regulation 2(1) (pb) defines Liquidation Period as a period of one year following expiry of tenure or extended tenure of the scheme of a Fund.)

- 2.3. Further, in terms of Regulations 29(1)(a) and 29(2)(a) of the AIF Regulations, an AIF set up in the form of Trust or Limited Liability Partnership, respectively, shall, inter-alia, be wound up when the tenure of the AIF or all schemes launched by the AIF, as specified in the placement memorandum, is completed.
- 2.4. Regulation 29(11) of the AIF Regulations provides that upon winding up of the Alternative Investment Fund, the certificate of registration shall be surrendered to the Board.
- 2.5. In terms of operational guidelines for surrender, an applicant filing for surrender of registration is required to submit various documents /declarations including the Fund's bank account statement evidencing NIL balance, to SEBI.
- 2.6. It is observed that certain AIFs or schemes of AIFs continue to retain proceeds of liquidated assets beyond the liquidation period or dissolution period ("permissible fund life"), for the following reasons:
- 2.6.1. Amounts retained on account of pending litigation or tax demand;
- 2.6.2. Amounts retained on account of anticipated of litigation or tax demand; and
- 2.6.3. Amounts retained for meeting operational liabilities

- 2.7. Consequently, AIFs or schemes of AIFs that have completed their tenure but continue to retain funds on account of the above circumstances face constraints in surrendering their registration due to non-compliance with the requirement specified under Para 2.2 above. SEBI has received applications for surrender of registration from such AIFs and VCFs (Registered under erstwhile VCF Regulations), where a portion of the liquidation proceeds has not been distributed to the investors for the reasons stated at Para 2.6 above.
- 2.8. It is also observed that certain AIFs do not carry out any active fund management activity and continue to exist solely on account of anticipation of favorable resolution of a litigation(s).
- 2.9. SEBI is in receipt of suggestion from the AIF industry that compliance burden for such funds may be reduced.
- 2.10. In view of the above, SEBI is issuing this consultation paper under the provisions of SEBI (Procedure for making, amending and reviewing of Regulations) Regulations, 2025 to seek public comments on the review of Regulation 29(7) of SEBI (AIF) Regulations, 2012.
- 2.11. The consultation paper seeks comments and views from the public and stakeholders on the following proposals –
- a) Permitting retention of funds by a scheme beyond the permissible fund life, subject to specified conditions; and
 - b) Introducing a framework for categorizing certain AIFs as “inoperative funds”, where no active fund management activity is undertaken, with proportionate regulatory compliances.
- 2.12. These proposals are intended to provide regulatory clarity and operational certainty in relation to winding up of AIF schemes and surrender of AIF registrations.

3. Issues under consideration

The circumstances under which monies are retained beyond the permissible fund life are discussed below.

3.1 Amount retained due to pending litigation or tax demand where notice of litigation has been received by AIF from any regulatory authority / law enforcement agency

- 3.1.1. In cases of ongoing litigations or subsisting tax demands, AIFs have expressed difficulties in continuing the fund in terms of compliance burden and related costs thereof. Since these litigations can be time taking, AIFs have requested to surrender the fund registration, while retaining amount due to ongoing litigation. However, distribution of proceeds after satisfaction of all liabilities and maintenance of a NIL bank balance is a prerequisite for surrender of registration.
- 3.1.2. With regards to industry feedback on easing of compliance burden for AIFs where no active fund management activity is currently undertaken, it is proposed that compliances may be minimised for such AIFs where liquidation proceeds are tied up on account of ongoing litigation.

3.1.3. Accordingly, AIF schemes may be permitted to retain liquidation proceeds beyond the permissible fund life, subject to the AIF demonstrating receipt of a litigation or demand notice from tax authorities or any other regulatory authority/ law enforcement agency.

3.1.4. Any money retained for the above purposes shall be bound by investment conditions as specified under Regulation 15(f) of AIF Regulations:

15(f) Un-invested portion of the investable funds and divestment proceeds pending distribution to investors may be invested in liquid mutual funds or bank deposits or other liquid assets of higher quality such as Treasury bills, Triparty Repo Dealing and Settlement, Commercial Papers, Certificates of Deposits, etc. till the deployment of funds as per the investment objective or the distribution of the funds to investors as per the terms of the fund documents, as applicable.

3.1.5. For AIF intending to surrender, having one or multiple such schemes, it is proposed that such surrender application may be processed such that the respective AIF may be tagged as 'inoperative fund'. Currently, such applications are returned to the applicant.

3.1.6. Compliances for such inoperative AIFs may be rationalized as follows:

- a) Discontinue filing of PPM audit report, CTR report and Quarterly reporting to SEBI; and
- b) Annual status report of retained money to be provided to SEBI and investors.

3.1.7. Once tagged as inoperative, such AIFs shall not be permitted to launch any new schemes, and no management fee shall be charged in respect of existing schemes.

3.1.8. Subsequent to satisfying all liabilities and having a NIL bank account balance, the AIF may apply to SEBI for surrender of its registration.

3.2 Monies retained due to anticipation of litigation or tax demand

3.2.1. It has been observed that certain AIFs retain monies beyond permissible fund life on account of anticipated litigation and tax demands.

3.2.2. As such anticipated liabilities are based on assumptions, permitting retention of funds beyond the permissible fund life by an AIF requires appropriate safeguards.

3.2.3. Clause 31 of Para VII of the PPM template (under Para 2.1.3 of the master circular on AIF dated May 07, 2024) provides for 'Giveback' provisions, which enable recovery of amounts from investors in the event of liabilities arising post-distribution. Using such terms, AIFs already have the flexibility to include relevant terms for recovery of funds pursuant to winding up of the scheme or surrender of the AIF. Therefore, in case any liability that arises post distribution of sale proceeds to investors, AIF may also exercise such flexibility in terms of their fund document.

- 3.2.4. While industry feedback has indicated practical challenges in invocation of giveback provisions, distribution of liquidation proceeds within the permissible fund life remains a core regulatory requirement.
- 3.2.5. However, considering that investments terms in AIFs are negotiated between investors and investment manager, it is proposed that retention of funds beyond the permissible fund life for anticipated liabilities may be permitted where a super-majority of investors consent to such retention.
- 3.2.6. Accordingly, where an AIF does not utilise giveback provisions, it is proposed that an AIF scheme may be allowed to retain portion of liquidation proceeds beyond the permissible fund life for anticipated expenses upon obtaining consent from at least 75% of the investors by value.
- 3.2.7. Pursuant to the receipt of required consent from investors, the AIF may be accorded the same regulatory treatment as proposed under Para 3.1.4 to 3.1.8 above.

3.3 Monies retained due to operational expenses

- 3.3.1. It is observed that AIFs also retain monies for meeting residual operational expenses such as payment of Consultant fees, Retainership cost, Legal consultant fees, RTA payment, filing PPM Audit Report etc.
- 3.3.2. In this regard, AIFs have submitted that such retained money is typically small relative to fund size. Further, as many expenses are crystallized at the end of financial year/towards the end of making surrender, it is difficult for AIF to achieve NIL bank balance by the end of permissible fund life.
- 3.3.3. As surrender of registration is contingent upon discharge of all liabilities, such AIFs are required to continue complying with all regulatory requirements despite the absence of active fund management activities. Accordingly, AIFs have requested to allow surrender of SEBI registration, while retaining certain monies for meeting operational expenses.
- 3.3.4. In this regard, it is proposed that AIF schemes may be permitted to retain liquidation proceeds beyond the permissible fund life for meeting operational expenses, subject to such expenses being substantiated through invoices, supporting documents or if the same are similar to previous years' expenses. The regulatory intent is that the operational expenses are only to keep the fund alive and AIFs should demonstrate that the retention of fund is for the same.
- 3.3.5. As operational expenses are inherently time bound, it is proposed that the duration for which the fund wishes to retain the amount needs to be demonstrated but the duration should not exceed a period of 3 years.
- 3.3.6. For AIF intending to surrender, having one or multiple such schemes, it is proposed that the such surrender application may be accorded the same treatment as proposed under Para 3.1.4 to 3.1.8 above.

3.4 Extension of 'inoperative' status in additional scenarios:

- 3.4.1. Based on discussion with the stakeholders, it is understood that in certain cases, an AIF may not retain any monies beyond the permissible fund life and may not have any active fund management activity, but may continue to exist in anticipation of a potential future inflow arising from favourable litigation outcomes.
- 3.4.2. In such cases, the AIF continues solely for contingent reasons and is subject to all regulatory compliances. Accordingly, it is proposed that such AIFs may also be extended the flexibility of getting tagged as 'inoperative funds', and may be accorded the same regulatory treatment as proposed under Para 3.1.4 to 3.1.8.

4. Consultation with stakeholders:

- 4.1 The proposals were placed for discussion before the Alternative Investment Policy Advisory Committee ('AIPAC'). After deliberations, AIPAC recommended the proposals at Para 3.1, 3.3 and 3.4 above.
- 4.2 With regard to the requirement of investor consent for the proposal at Para 3.2 above, it was initially proposed that consent be obtained from all investors. It was highlighted to the committee that the requirement for investor consent is limited to cases involving anticipated liabilities, as such liabilities are not supported by demonstrable claims at the relevant time and are based on assumption. Further, the committee also took note of the measures being undertaken by SEBI to streamline investor consent process.
- 4.3 While the committee broadly supported the proposal, certain members highlighted practical challenges in obtaining unanimous investor consent. Accordingly, the proposal has been modified to require consent from at least 75% of investors by value.

5. Proposals

- 5.1 Based on the above, public comments are sought on the following proposals:

Proposals for consideration:	
Proposal 1.	Do you agree that AIF schemes may be permitted to retain funds beyond permissible fund life subject to the following conditions: 1.a. Demonstrable receipt of litigation or demand notice from tax authorities or any other regulatory authority / law enforcement agency; 1.b. Consent from at least 75% of the investors by value in case of anticipated liabilities arising due to litigation or tax demand; and 1.c. Substantiation of retained amounts towards operational expenses through invoices, supporting documents or comparable expenses incurred in previous years.
Proposal 2.	Do you agree that the heads of specific operational expenses be prescribed (<i>ref: Proposal 1.c</i>)? If yes, public comments are sought on different heads of operational expense that may be specified for this purpose.

Proposals for consideration:	
Proposal 3.	Do you agree that AIFs intending to surrender registration and having one or more such schemes as mentioned at Proposal 1, may be tagged as inoperative? Note - Such inoperative AIFs will be able to apply for surrender only after all liabilities are settled and a NIL bank balance is achieved.
Proposal 4.	Do you agree that AIFs that have not retained monies beyond permissible fund life may also apply for 'inoperative' status?
Proposal 5.	Do you agree with the following regulatory framework which will be applicable for inoperative funds? 5.a. Rationalised compliances – discontinuation of PPM audit report, CTR report and quarterly filing to SEBI; 5.b. AIFs to intimate annual status report of retained money to SEBI and investors 5.c. Investment of retained monies strictly in accordance with Regulation 15(f) of the AIF Regulations; 5.d. Prohibition on launch of new schemes; 5.e. Prohibition on charging management fees; and 5.f. A maximum retention period of three years for amounts retained towards operational expenses.

5.2 In view of the above proposals, regulatory amendments to be carried out are placed at **Annexure A.**

6. Public comments

6.1 Considering the implications of the aforementioned matters on the market participants, public comments are invited on the above proposals. The comments/ suggestions should be submitted latest by February 26, 2026, only through the following link:

<https://www.sebi.gov.in/sebiweb/publiccommentv2/PublicCommentAction.do?doPublicComments=yes>

6.2 In case of any technical issue in submitting your comment through web based public comments form, you may contact Mr. Ashutosh Parauha, Manager at ashutoshp@sebi.gov.in or afdconsultation@sebi.gov.in with the subject: "Consultation Paper on Flexibility to AIFs in Winding up the scheme / Surrendering the Registration".

Issued on: February 05, 2026

A. Draft amendments to SEBI (Alternative Investment Funds) Regulations, 2012

S. No	Regulation No.	Present Regulatory Provision	Proposed Regulatory Provision
1.	29(7)	<i>Within the liquidation period, the assets shall be liquidated, and the proceeds accruing to investors in the Alternative Investment Fund or the scheme of the Alternative Investment Fund shall be distributed to them after satisfying all liabilities.</i>	<i>Within the liquidation period, the assets shall be liquidated, and the proceeds accruing to investors in the Alternative Investment Fund or the scheme of the Alternative Investment Fund shall be distributed to them after satisfying all liabilities, <u>subject to conditions as may be specified by the Board from time to time.</u></i>

B. Issuance of a circular: It is proposed that following modalities may be specified by way of a circular:

1. AIF schemes may be permitted to retain funds beyond permissible fund life subject to the following conditions:
 - a. Demonstrable receipt of litigation or demand notice from tax authorities or any other regulatory authority / law enforcement agency;
 - b. Consent from at least 75% of the investors by value in case of anticipated liabilities arising due to litigation or tax demand; and
 - c. Substantiation of retained amounts towards operational expenses through invoices, supporting documents or comparable expenses incurred in previous years.
2. Money retained by such AIFs shall be bound by investment conditions as specified under Regulation 15(f) of AIF Regulations.
3. AIFs intending to surrender registration and having one or more such schemes may be tagged as inoperative, and may apply for surrender only after all liabilities are settled and a NIL bank balance is achieved.
4. AIFs that have not retained monies beyond permissible fund life may also apply for 'inoperative' status.
5. The regulatory framework for inoperative funds shall include:
 - a. Rationalised compliances – discontinuation of PPM audit report, CTR report and quarterly filing to SEBI;
 - b. AIFs to intimate annual status report of retained money to SEBI and investors
 - c. Investment of retained monies strictly in accordance with Regulation 15(f) of the AIF Regulations;
 - d. Prohibition on launch of new schemes;
 - e. Prohibition on charging management fees; and
 - f. A maximum retention period of three years for amounts retained towards operational expenses