

Flexibility to AIFs in winding up of scheme and surrendering of registration

1. Objective:

1.1. This Board Memorandum proposes to amend the SEBI (Alternative Investment Funds) Regulations, 2012 ('AIF Regulations'), to provide a predictable and efficient manner for exit to Alternative Investment Funds ('AIFs') who wish to discontinue their activities by introducing a framework for categorising such AIFs with no active fund management activity as 'inoperative funds', with proportionately reduced compliance obligations pending final surrender of registration.

2. Issues under consideration:

2.1. Regulation 29 of the AIF Regulations lays down norms for winding up of AIFs, which inter-alia provides that –

2.1.1. An AIF shall be wound up upon completion of the tenure of the AIF or all schemes launched thereunder, as specified in the placement memorandum.

2.1.2. Within the liquidation period (that is, the period of one year following the expiry of tenure or extended tenure of the fund), 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.

2.1.3. Upon winding up of the AIF, the certificate of registration shall be surrendered to SEBI.

2.2. Accordingly, SEBI receives and processes applications for surrender of registration from AIFs. As evidence of the distribution of liquidation proceeds in connection with surrender of registration, an applicant is required to submit, inter-alia, bank account statement of the fund reflecting NIL balance.

2.3. However, SEBI has been receiving applications for surrender of AIFs, wherein the investments are liquidated and proceeds are distributed to investors, while retaining a portion of the liquidation proceeds in the fund's account. Upon

examining such applications, it is observed that certain AIFs/schemes of AIFs continue to retain proceeds of liquidated assets beyond the liquidation period or dissolution period ('permissible fund life') mainly for the following reasons:

- 2.3.1. Amounts retained on account of pending litigation or tax demand;
- 2.3.2. Amounts retained on account of anticipation of litigation or tax demand;
and
- 2.3.3. Amounts retained for meeting residual operational liabilities.

The data on the aforesaid cases where they have applied for surrender is given below:

S. No.	Reason for retaining monies	No. of cases	Amount in INR
1.	Amounts retained on account of pending litigation or tax demand	5	1,12,07,33,676
2.	Amounts retained on account of anticipation of litigation or tax demand	1	21,14,74,256
3.	Amounts retained for meeting residual operational liabilities	8	45,41,31,408

2.4. Consequently, AIFs that have completed their tenure and liquidated their investments, but have retained funds for the aforementioned reasons are unable to satisfy the NIL bank balance requirement for surrendering their registration. Such applications are then returned to the applicant under the current practice.

2.5. 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 a favourable resolution of pending litigation(s). SEBI has also received representations from the AIF industry requesting a reduction in the compliance burden on such funds.

2.6. The entry into the securities market by intermediaries is subject to specified eligibility criteria, with a clearly laid down framework. It is equally important that

the regulatory framework governing exit, where an entity seeks to discontinue its activities, should be clear, predictable and operationally efficient.

- 2.7. Accordingly, it is imperative to provide a proper framework for AIFs/schemes to retain reserves in genuine circumstances, so as to allow them to exit the fund management activity without significant compliance burden. Considering that there are many AIFs which are nearing the end of their tenure in near future, addressing these winding up related issues of AIFs is an immediate priority. The proposals in the memorandum intend to provide adequate flexibility and clarity in the extant AIF regulatory framework to address these issues.

3. Proposed regulatory approach and specific scenarios for retention of proceeds by AIFs:

- 3.1. The regulatory framework for AIFs is agnostic to whether the fund is actively managed or not. Thus, even in scenarios where the funds/schemes are continuing to exist solely on account of pending litigations/tax demands or resolving operational liabilities, these funds are treated at par with active funds with respect to the fulfillment of compliance requirement. Considering that this leads to burden on the manager of these AIFs, they apply for surrender or registration, while retaining reserves for meeting the aforesaid obligations. However, acceptance of surrender of registration pending distribution of proceeds of liquidation may have post-facto implications, with investors possibly making a claim on the retained amount in future. Further, any proceeds pending after satisfying all the liabilities should rightfully be distributed to the investors of the fund.
- 3.2. However, in order to address the issue faced by AIF industry, it is proposed that such funds which are continuing solely on account of pending litigations/tax demands or resolving operational liabilities may be tagged as 'inoperative funds' when they apply for surrender of registration. These funds may be allowed to retain money for the purpose of meeting the liabilities and operating expenses as per the proposal in this note.

3.3. To ensure that this proposed flexibility is not misused by AIFs to retain proceeds beyond fund life, the 'inoperative fund' tagging may be provided only in certain specific scenarios which genuinely warrant such status. Such specific circumstances and the regulatory considerations relevant to each, are discussed below.

3.4. **Scenario 1 - Amounts retained due to pending litigation or tax demand**

3.4.1. AIFs may be subject to tax demands received from Income tax department or be a party to litigations with investors, investee companies etc. In cases involving ongoing litigations or subsisting tax demands where a notice has been received, AIFs and managers have expressed difficulties in managing ongoing compliance obligations and bearing the associated costs.

3.4.2. Since such litigations can be prolonged, AIFs have requested that they be permitted to surrender their registration while retaining the amounts in question. However, as noted earlier, distribution of proceeds after satisfaction of all liabilities and maintenance of a NIL bank balance is a prerequisite for surrender of registration under the extant framework.

3.4.3. Considering industry feedback, it is proposed that AIF schemes may be permitted to retain liquidation proceeds beyond the permissible fund life, where there is demonstrable receipt of a litigation notice or tax/regulatory demand.

3.4.4. The demonstrable receipt may include any official written communication from a tax authority, regulatory authority, law enforcement agency or from an investor or counterparty in relation to litigation, which indicates potential tax or regulatory liability. This shall include show-cause notices, re-assessment notices, or similar communications and shall not be restricted to crystallised demand notices.

3.5. **Scenario 2 - Amounts retained due to anticipated litigation or tax demand**

3.5.1. It is observed that certain AIFs retain monies beyond the permissible fund life in anticipation of litigation or tax demands. Since such anticipated liabilities are based on assumptions rather than demonstrable claims, permitting retention beyond the permissible fund life necessitates appropriate safeguards to protect investor interests.

3.5.2. In this regard, it may be noted that the PPM template under the AIF master circular dated May 7, 2024, provides for 'Giveback by the investors' provision under Clause 31 of Para VII, which enables recovery of amounts from investors in the event of post-distribution liabilities. Thus, AIFs already have the flexibility to include such terms in their fund documents and to exercise them in the event of any liability arising after distribution. While industry feedback has indicated practical challenges in invoking giveback provisions, distribution of liquidation proceeds within the permissible fund life remains a core regulatory requirement, in the interest of investor protection.

3.5.3. Considering that the investment terms of AIFs are negotiated between investors and the investment manager, it is proposed that retention of funds beyond the permissible fund life on account of anticipated liabilities be permitted, only if investors of the fund consent to such retention. Upon receipt of the majority investor consent, the AIF/scheme of AIF shall apply and avail the status of 'inoperative fund'.

3.5.4. It is pertinent to note that the requirement for investor consent is inevitable in these cases, since these involve retention of proceeds based on anticipated liabilities, unsupported by demonstrable claims and based on assumption. Considering the investor consent requirement, no limits may be prescribed with respect to amount or time for retention of proceeds.

3.6. **Scenario 3 - Amounts retained for operational expenses**

3.6.1. It is observed that AIFs also retain monies to meet residual operational expenses while winding up the AIF/scheme, such as consultant fees,

retainership costs, legal fees, registrar and transfer agent charges, and costs associated with filing the PPM audit report etc. AIFs have submitted that such amounts are typically small relative to the fund size and that several expenses crystallise at the end of the financial year or towards the end of the winding-up process, making it difficult to achieve a NIL balance by the end of the permissible fund life.

3.6.2. Therefore, AIF schemes may be permitted to retain proceeds beyond the permissible fund life to meet operational expenses and obtain tagging as 'inoperative funds', subject to such expenses being substantiated through invoices, supporting documents, or comparability with expenses incurred in previous years. The regulatory intent is to ensure that the retained amount is deployed solely to keep the fund operative for the purpose of winding up, and the AIF should demonstrate this to SEBI.

3.6.3. As operational expenses are inherently time-bound, it is proposed that the maximum duration for which proceeds may be retained for this purpose be capped at three years from the end of the permissible fund life.

3.7. **Scenario 4 - AIFs with no retained monies**

3.7.1. The AIF industry highlighted certain cases where an AIF/scheme may not retain any monies beyond the permissible fund life and not have any active fund management activity, but continues to exist solely in anticipation of a potential future inflow of proceeds/capital due to possible favourable outcome of a litigation to which the AIF is a party.

3.7.2. Since such AIFs continue to bear all regulatory compliance obligations for contingent reasons under extant framework, it is proposed to extend the flexibility of being tagged as 'inoperative funds' to such AIFs also, to reduce their compliance requirements.

3.8. The regulatory framework applicable to funds tagged as 'inoperative' shall be as follows:

- 3.8.1. 'Inoperative funds' may be given the flexibility to invest such retained monies in accordance with Regulation 15(f) of the AIF Regulations, which permits temporary deployment of funds in liquid mutual funds, bank deposits, Treasury bills, Tri-party Repo Dealing and Settlement instruments, commercial papers, certificates of deposit, or other liquid assets of higher quality.
 - 3.8.2. The regulatory compliances for such inoperative funds may be rationalised which inter-alia will allow AIFs to discontinue periodic filing with SEBI.
 - 3.8.3. Submission of an annual status report on retained monies to SEBI and to their investors.
 - 3.8.4. Such AIFs shall not be permitted to launch any new schemes, and no management fee shall be charged in respect of existing schemes.
 - 3.8.5. Upon satisfaction of all liabilities and achievement of a NIL bank account balance, the AIF with inoperative funds may apply to SEBI for surrender of its registration.
- 3.9. This proposed regulatory approach is intended to reduce the compliance cost for maintaining these inoperative funds, while also retaining necessary regulatory oversight.

4. Consultation with Stakeholders and Public Consultation:

- 4.1. An agenda item in this regard was placed for discussion before the Alternative Investment Policy Advisory Committee ('AIPAC'), in its meeting held on January 07, 2026. After deliberations, AIPAC recommended the proposals pertaining to retention of funds on account of pending litigation or tax demands, retention for operational expenses, and extension of inoperative status to AIFs with no retained monies.
- 4.2. As regards the requirement of investor consent for amounts retained on account of anticipated liabilities, certain AIPAC members highlighted practical challenges in obtaining unanimous consent. Based on suggestions received

from AIPAC, the proposal has been modified to require consent from at least 75% of investors by value, instead of consent from all investors.

- 4.3. A consultation paper was issued on February 05, 2026 inviting public comments by February 26, 2026, on permitting retention of funds beyond the permissible fund life subject to specified conditions and the proposed framework for 'inoperative funds'. A total of 102 comments have been received on the five proposals of aforesaid consultation paper from 23 commenters (including AIFs, Investment Manager, investor and AIF industry associations).
- 4.4. Nearly all the commenters have concurred with the proposals to allow retention of proceeds beyond permissible fund life and the introduction of 'inoperative fund' framework. However, various suggestions have been received on the scenarios permitted and the conditions for 'inoperative funds'. Some of the major suggestions and our views on the same, are as under –

4.4.1. Definition of demonstrable receipt for pending litigations –

- (i) Commenters have submitted the definition of 'demonstrable receipt' should be pragmatic considering the regulatory and litigation realities. It has been suggested the said definition should include official written communication from tax authorities or regulatory bodies such as SCNs, investigation summons or preliminary notices.
- (ii) As mentioned earlier at paragraph 3.4.4., considering the comments received, the definition of 'demonstrable receipt' has been suitably modified to include any written communication from tax or other authorities.

4.4.2. Investor consent requirement –

- (i) While the consultation paper had proposed investor consent requirement only for retention of reserves for anticipated liabilities,

commenters have misconstrued that the same may apply for all scenarios for retention of proceeds.

- (ii) It is reiterated that investor consent requirement is proposed to be mandated only for retention of reserves for anticipated liabilities, as these are not supported by demonstrable claims and are based on assumption.

4.4.3. Defining the specific heads for operational expenses for which retention is permitted –

- (i) Views were sought from the stakeholders on whether the specific operational heads for which proceeds may be retained should be prescribed explicitly by SEBI.
- (ii) Majority of the commenters have expressed that such detailed prescription of operational heads may not be desirable, considering that the template PPM for AIFs mandates disclosure of types of operating expenses and estimated caps/range for the same. Since the industry may be adopting different practices and nomenclatures for charging different types of expenses and fees, it may be difficult to make an exhaustive list of all possible operating expenses for which retention of capital may be permitted.
- (iii) Considering the comments received and that AIFs have to, in any case, substantiate that the reserve for operational expenses is in line with previous year's expenses, specific heads for operational expenses may not be prescribed.

4.4.4. Tagging at scheme level, instead of AIF level –

- (i) Commenters have suggested that the tagging of 'inoperative fund' shall be carried out at scheme level, instead of tagging at AIF level.
- (ii) The proposal for tagging as an 'inoperative fund' has been designed specifically to address concerns relating to the surrender of AIF registration on account of scenarios detailed above. The

intent of such tagging is to provide flexibility at the time of exit and also to prevent misuse of AIF registration where no active fund management activity is being undertaken. Therefore, it may not be appropriate to tag 'inoperative' status at the scheme level. However, where monies have been retained beyond the 'permissible fund life' at the scheme level, such details shall be reported to SEBI at the time of winding up of the concerned scheme and as an annual status report, even in cases where surrender of AIF registration is not intended/ possible.

4.4.5. Extending the flexibility to VCFs registered under erstwhile SEBI (Venture Capital Funds) Regulations, 1996 –

- (i) Commenters have suggested that the flexibility and framework proposed for winding up of AIFs and their schemes should also extend to VCFs registered under erstwhile SEBI (Venture Capital Funds) Regulations, 1996.
- (ii) As already stated above, the VCFs registered under erstwhile SEBI (Venture Capital Funds) Regulations, 1996 also face similar issues relating to winding up and surrender as mentioned for AIFs.
- (iii) These comments merit consideration. Accordingly, necessary policy/ procedural changes shall be facilitated by SEBI for similarly placed VCFs.

4.4.6. Untraceable investors –

- (i) Commenters have highlighted scenarios where AIFs are unable to wind up their schemes due to pending distribution of proceeds to untraceable or deceased investors. Suggestions have also been received on a possible framework for dealing with untraceable investors and winding of schemes with such investors.

- (ii) SEBI is in consultation with the industry on the possible solutions for addressing this issue. Accordingly, this issue and suggestions have been noted for taking a final view in this matter.

4.4.7. Reviving dormant registration –

- (i) Commenters have sought for extending the applicability of inoperative status to schemes that have not achieved first close and have not on-boarded any investors. In such cases although no investment activity has commenced, full compliance requirements continue to apply resulting in regulatory burden.
- (ii) It is pertinent to note that the 'inoperative fund' tag is intended to provide some compliance relief to such funds which have carried out and completed their investment activity and are forced to continue with the registration due to unforeseen circumstances. It is intended that these funds will close down and surrender their registration upon satisfying the pending liabilities and liquidating the reserves. These inoperative funds are restricted from making any new investment and charging management fees from their schemes, considering there is no active fund management.
- (iii) Thus, AIFs which are in the process of attempting to raise capital before first close to achieve the minimum corpus within 12 months from the date SEBI takes PPM on record are not 'inoperative' per se. Extending this tagging to such funds does not align with the intent of the tagging.

4.4.8. Relaxation from other compliance requirements -

- (i) Commenters have suggested that rationalised compliances should be extended to include other compliances such as cybersecurity, PPM updation, Performance Benchmarking, STPI filings, audit requirements etc.

- (ii) Considering that no fund management activity is being carried out in the scenarios detailed above, the said compliance requirements may be discontinued for 'inoperative funds'.

A copy of the consultation paper and a detailed summary of the public comments received, along with SEBI's views on the same, are placed at [Annexure A](#) and [Annexure B](#) respectively.

5. Proposals to the Board:

5.1. Considering the recommendations of AIPAC, the public comments received on the consultation paper, and internal deliberations, it is proposed that the AIF Regulations may be suitably amended to allow AIFs or schemes of AIFs to retain liquidation proceeds beyond the permissible fund life and to enable tagging certain AIFs as 'inoperative funds', in the manner and subject to conditions as may be specified by SEBI from time to time.

5.2. It is further proposed that the following operational modalities and conditions for such AIFs may be specified by way of issuance of circular -

5.2.1. AIF schemes may be permitted to retain proceeds beyond the permissible fund life subject to meeting one of the following conditions:

5.2.1.1. 'Demonstrable receipt' of a litigation or demand from a tax authority or any other regulatory authority or law enforcement agency;

5.2.1.2. Consent from at least 75% of the investors by value of the fund, in the case of anticipated liabilities arising due to litigation or tax demand;

5.2.1.3. Substantiation of retained amounts towards operational expenses through invoices, supporting documents, or comparable expenses incurred in previous years.

5.2.2. The 'demonstrable receipt' may include any official written communication from a tax authority, regulatory authority, law enforcement agency or from an investor or counterparty in relation to

litigation, which indicates potential tax or regulatory liability. This shall include show-cause notices, reassessment notices, or similar communications and shall not be restricted to crystallised demand notices.

5.2.3. Monies retained by AIFs/schemes of AIFs under the above conditions shall be invested in accordance with Regulation 15(f) of the AIF Regulations.

5.2.4. AIFs intending to surrender their registration and having one or more such schemes as mentioned above shall be tagged as 'inoperative funds'. Such AIFs may apply for final surrender of registration only after settlement of all outstanding liabilities and achieving a NIL bank balance.

5.2.5. AIFs that have not retained any monies beyond the permissible fund life but continue to exist solely in anticipation of a favourable litigation outcome may also apply to SEBI for 'inoperative fund' status and avail the associated benefits.

5.2.6. AIFs that have retained monies beyond the permissible fund life in a scheme, that also has other schemes in which fund management activity is continuing, shall be required to submit the details of such retention to SEBI and investors at the time of winding up of the concerned scheme and as an annual status report.

5.2.7. The regulatory framework applicable to funds tagged as 'inoperative' shall include the following:

- (a) Rationalised compliances shall include discontinuation of periodic filings, PPM updation, Performance Benchmarking and any other compliance requirement as may be prescribed by SEBI from time to time;
- (b) Submission of an annual status report on retained monies to SEBI and to their investors;

- (c) Investment of retained monies strictly in accordance with Regulation 15(f) of the AIF Regulations;
- (d) Prohibition on the launch of any new schemes;
- (e) Prohibition on charging management fees in respect of existing schemes; and,
- (f) A maximum retention period of three years for amounts retained towards operational expenses.

5.3. The draft amendment to the AIF Regulations and the draft notification for the proposed amendment are placed at [Annexure C](#) and [Annexure D](#) respectively.

5.4. The Board is requested to consider and approve the proposals set out in this Memorandum and to authorise the Chairperson to make consequential and incidental changes and take necessary steps required to give effect to the decisions of the Board.

Encl:

1. [Annexure A](#) (01 page) - Consultation paper issued on February 5, 2026.
2. [Annexure B](#) (20 pages) – Summary of public comments received along with SEBI's views.
3. [Annexure C](#) (01 page) – Draft amendment to SEBI (Alternative Investment Funds) Regulations, 2012.
4. [Annexure D](#) (01 pages) – Draft notification for the proposed amendment.

Annexure A

The consultation paper is available at the following link:

<https://www.sebi.gov.in/reports-and-statistics/reports/feb-2026/consultation-paper-on-flexibility-to-alternative-investment-funds-aifs-in-winding-up-the-scheme-surrendering-the-registration-99541.html>

Annexure B

Summary of the public comments on ‘Consultation paper on Flexibility to AIFs in winding up the scheme and surrendering the registration’

Proposals		No. of people/entities agreeing to the proposal					
S. No.	Proposal Description	Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree	Total Count
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.	7	10	6	0	0	23
2	Do you agree that the heads of specific operational expenses be prescribed (ref: Proposal 1.c)? If yes, public comments are sought on different heads of operational	5	5	2	8	1	21

	expense that may be specified for this purpose.						
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?	5	11	3	0	0	19
4	Do you agree that AIFs that have not retained monies beyond permissible fund life may also apply for inoperative status?	7	10	1	0	0	18
5	Do you agree with the following regulatory framework which will be applicable for inoperative funds?	8	5	8	0	0	21

For each proposal in the consultation paper, a summary of proposal wise comments and SEBI's views are given as under –

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.

S. No.	Comments received	SEBI's views
1.	<p>With regard to sub-proposal 1(a), commenters have agreed in principle but have suggested that the definition of 'demonstrable receipt' of a litigation or demand notice must be pragmatic. It has been highlighted that tax proceedings in India frequently commence with preliminary inquiries, show-cause notices (SCNs), or investigation summons well before a formalized demand notice is crystallized. Accordingly, it has been suggested that the definition of 'demonstrable receipt' be expanded to explicitly include any official written communication from Tax Authorities or regulatory bodies — including electronic communications, preliminary assessments, SCNs, and investigation summons — that threatens or anticipates a tax demand. Retained monies for litigation and or tax demands should be supported by detailed workings demonstrating reasonableness and certified by an independent professional.</p>	<p>The rationale for modifying the definition of 'demonstrable receipt' merits consideration. Accordingly, the definition has been modified suitably in the present proposal. Since the retention is based on 'demonstrable receipt', no independent professional certification is deemed necessary.</p>
2.	<p>With respect to sub-proposal 1(a), the provision currently requires "demonstrating receipt" but does not specify the authority, format, or evidentiary standards, creating ambiguity and potential for inconsistent implementation. Further, it has been suggested that the framework should permit retention not just</p>	<p>The AIFs applying for tagging as 'inoperative fund' or submitted the details of retention would be required to demonstrate the same to SEBI by submitting adequate details and documents. The proposed framework permits retention of</p>

S. No.	Comments received	SEBI's views
	for the principal demand but also for ongoing operational and litigation costs including legal fees, consultant fees, audit fees, and RTA charges.	operational expenses incidental to managing ongoing litigations which could include legal and advisory fees and accordingly, no specific limit has been specified for such retention on account of pending litigation or tax demand.
3.	A segment of commenters has suggested that conditions 1(a) and 1(b) be dispensed with entirely. The rationale offered is that income tax authorities retain the statutory power to reopen assessments for several years after the end of the relevant financial year. These commenters are of the view that a Fund which has reasonable grounds to believe an assessment may be reopened should be permitted to retain monies even in the absence of a formal demand notice, subject to providing periodic disclosures to investors.	Retention of funds on account anticipated tax or litigation demand has already been provided under scenario 2. Further, the requirement for investor consent is a necessary safeguard since this involves retention of proceeds based on anticipated liabilities, unsupported by demonstrable claims and based on assumption.
4.	The anticipated liabilities due to tax demand should be directly linked to the response in 1a above meaning a threatened tax demand via a preliminary notice should be valid grounds to seek this 75 percent investor consent for fund retention.	The definition of 'demonstrable receipt' has been proposed to be modified to include such preliminary notices and in that case no investor consent would be required.
5.	Explaining about each anticipated litigation to majority of investors and taking their consent will not be feasible.	No requirement of investor consent has been prescribed in cases where monies are

S. No.	Comments received	SEBI's views
	<p>Further, commenters have opined that since the payment of litigation or tax demands is mandatory in nature, the requirement of obtaining 75 percent investor consent should be dispensed with in respect of such statutory obligations.</p>	<p>retained on account of 'demonstrable receipt'. The requirement of investor consent is a necessary safeguard since retention of proceeds based on anticipated liabilities are unsupported by demonstrable claims and based on assumption.</p>
6.	<p>With regard to sub-proposal 1(b), commenters have broadly agreed with the 75 percent threshold by value as a safeguard. However, modifications have been suggested on the consent mechanism. Commenters have suggested that SEBI may permit a deemed consent mechanism whereby, where the Investment Manager has undertaken bona fide and demonstrable efforts to obtain investor approval but has not received responses within a specified notice period (e.g., 30 to 45 days), consent may be treated as received, subject to adequate disclosures having been made to investors. commenters have suggested that SEBI consider a 'present and voting' standard, whereby 75 percent of investors who participate in a vote would be sufficient, in lieu of requiring affirmative consent from 75 percent of all investors by value. It has been noted that obtaining such affirmative consent is operationally</p>	<p>SEBI is in consultation with the industry to streamline the consent mechanism under AIF Regulations. Accordingly, the suggestions have been noted for taking a final view in the matter.</p>

S. No.	Comments received	SEBI's views
	<p>difficult, particularly for funds with a large number of investors or with investors who are unresponsive after the conclusion of the fund's life. It has further been suggested that, where the Private Placement Memorandum (PPM) or Contribution Agreement already provides for deemed approval or pre-authorized retention thresholds for such contingencies, no further investor approval should be required.</p>	
7.	<p>Commenters have also sought clarification on the consequences where 75 percent investor consent is not received — specifically, the mechanism by which the Fund may meet the anticipated litigation or tax demand in such an eventuality.</p> <p>On the relationship between the proposed retention mechanism and giveback provisions, it has been suggested that SEBI clarify that the retention mechanism under 1(b) operates in addition to, and not as a substitute for, giveback arrangements, since additional liabilities may arise after the end of the scheme's life necessitating invocation of giveback provisions.</p>	<p>This issue has already been addressed in the consultation paper. 'Giveback' provisions specified in the PPM template enable recovery of amounts from investors in the event of liabilities arising post-distribution. Therefore, AIFs may include relevant flexibility in their fund document and exercise the same.</p>
8.	<p>On the linkage between 1(a) and 1(b), commenters have suggested that anticipated liabilities for the purposes of 1(b) be directly linked to the expanded</p>	<p>There is no requirement of investor consent in cases where monies are retained on account of 'demonstrable</p>

S. No.	Comments received	SEBI's views
	definition of 'demonstrable receipt' in 1(a), such that a preliminary notice or SCN would constitute valid grounds to seek the 75 percent consent for fund retention.	receipt'. Only in case of anticipated liabilities, AIFs would be required to take investor consent.
9.	As regards Fund of AIFs, commenters have opined that where an underlying AIF retains funds with 75 percent consent of its own investors, the Fund of AIFs investing in such underlying AIF should not be separately required to obtain 75 percent consent from its investors in respect of the same underlying retention or to provide its own consent to the underlying AIF for the said purpose.	Since Fund of AIFs that invest in other AIFs are essentially investors, no requirement to obtain 75 percent consent from its investors in respect of the retention of monies by underlying fund is necessary. However, such Fund of AIFs would be required to participate in the voting process as an investor in that AIF.
10.	With regard to sub-proposal 1(c), commenters have agreed that retained amounts must be substantiated. However, it has been suggested that, since supporting documents or invoices may not always be available in advance, 75 percent investor consent by value on the basis of estimates made by the Investment Manager should be sufficient, in lieu of requiring documentary proof for each expense at the time of retention. It has further been suggested that where the PPM or Contribution Agreement already provides for creation of reserves, no further investor approval should be required. It has also been noted that	Since operational expenses tend to be recurring in nature, the submission that supporting documents may not be available is not tenable. As regards the standing consent by way of incorporation of provisions in the contribution agreement or PPM, SEBI is in consultation with the industry to streamline the consent mechanism under AIF Regulations. Accordingly, the suggestions have been noted for taking a final view in the matter.

S. No.	Comments received	SEBI's views
	industry bodies, namely IVCA and PEVCCFOA, have committed to providing Standard Operating Procedures (SOPs) and a Best Practices framework in consultation with each other to standardize the substantiation of such expenses, which would reduce the micro-regulatory burden on SEBI.	
11.	With respect to untraceability of investors, it has been suggested that SEBI explicitly permit retention where investors are untraceable or where payment cannot be effected due to regulatory or operational constraints, and that unclaimed amounts be permitted to be transferred to the SEBI Investor Protection and Education Fund (IPEF).	SEBI is in consultation with the industry on the possible solutions for addressing this issue. Accordingly, this issue and suggestions have been noted for taking a final view in this matter.
12.	It has also been suggested that similar amendments be introduced to Regulation 29B of the AIF Regulations, which governs schemes in the dissolution period, as such schemes face identical issues. Additionally, it has been suggested that the proposed framework be extended to cover Venture Capital Funds (VCFs) registered under the erstwhile SEBI (Venture Capital Funds) Regulations, 1996, which face similar challenges.	The tagging as 'inoperative fund' covers funds which retain funds beyond the permissible fund life which could be after the liquidation or dissolution period. Further, Regulation 29B (1) of the AIF regulations, which deals with dissolution period, already has the enabling provision, "subject to conditions as may be specified by the Board". Therefore, no further amendment is necessary.

S. No.	Comments received	SEBI's views
		Since the VCF Regulations were repealed in 2012, accordingly, necessary policy/procedural changes shall be facilitated by SEBI for similarly placed VCFs.
13.	It has been suggested to include situations where a fund exists solely due to an on-going litigation involving a portfolio company that directly affects the Fund's ability to liquidate its investment in such portfolio entity.	In such cases, the securities related to investment in a portfolio company remains with the AIF. Since, the fund has not completed liquidating its investments, tagging such funds as 'inoperative' may not be appropriate.
14.	Additional governance measures with respect to anticipated liabilities has been suggested with the following safeguards: Mandatory Consent Disclosure requirements that defines the legal basis, probability bands, and hard caps on retained capital, prompt fund releases as risks diminish, strict expense governance and event-based reporting.	Considering that the retention of anticipated tax or litigation demand is subject to investor consent, appropriate level of disclosure and the modalities governing the usage of the retained funds will get covered through the investor consent mechanism.

Proposal 2: Do you agree that the heads of specific operational expenses be prescribed (ref: Proposal 1.c)? If yes, public comments are sought on different heads of operational expense that may be specified for this purpose.

S. No.	Comments received	SEBI's views
15.	The primary view is that SEBI need not prescribe specific heads of operational	Considering that the majority of the comments

S. No.	Comments received	SEBI's views
	<p>expenses. The existing regulatory architecture — particularly Para 21 (types, estimates, and caps of operating expenses) and Para 22 (expenses to be borne by the Manager) of Schedule VII of the SEBI Model PPM circular dated February 5, 2020 — already mandates comprehensive disclosures and ensures granular transparency and investor protection.</p>	<p>received have disagreed and that AIFs have to, in any case, substantiate that the reserve for operational expenses is in line with previous year expenses, specific heads for operational expenses has not be prescribed in the revised proposal.</p>
16.	<p>AIF investors are sophisticated institutional and High Net Worth Individuals who extensively negotiate PPMs and Contribution Agreements. Restricting operational expenses to SEBI-prescribed heads would arbitrarily infringe upon the commercial flexibility necessary to manage bespoke fund structures.</p>	
17.	<p>All expense scenarios that may arise during wind-down (including defaults by investee companies) cannot be anticipated in advance and so flexibility should rest with the Investment Manager.</p>	
18.	<p>Expenses are already specified in fund documents, and once investment activity ceases, only relevant expenses are incurred — a separate SEBI specification is therefore redundant.</p>	
19.	<p>Discretion to retain monies for operational expenses without clearly prescribed heads may create scope for ambiguity. In the absence of clearly defined categories managers may retain excess amounts as precaution which may delay timely</p>	

S. No.	Comments received	SEBI's views
	distributions to investors. A prescribed exhaustive list of permissible heads as suggested in the column above would reduce the risk of misuse and provide greater comfort to investors regarding the intended use of the retained amounts.	

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.

S. No.	Comments received	SEBI's views
20.	Commenters have broadly agreed with the proposal to tag as 'inoperative' those AIFs that intend to surrender their registration and have one or more schemes retaining funds beyond the permissible fund life. However, commenters have suggested that the inoperative tag should apply at the scheme level and not at the level of the entire AIF trust, particularly in a multi-scheme AIF structure. It has been suggested that inoperative schemes be accorded compliance exemptions similar to those proposed for inoperative AIFs.	The proposal for tagging as an 'inoperative fund' has been designed specifically to address concerns relating to the surrender of AIF registration on account of scenarios detailed above. The intent of such tagging is to provide flexibility at the time of exit and to prevent misuse of AIF registration where no active fund management activity is being undertaken. Therefore, it may not be appropriate to tag 'inoperative' status at the scheme level.

S. No.	Comments received	SEBI's views
21.	Since Income Tax assessments can be reopened till 8 years from the end of Assessment year in which the fund is closed. In the backdrop of this regulation, the Fund should be classified as "inoperative" till the time as decided by the Investment Manager.	Provision to retain monies in case of anticipated tax or litigation demand has already been provided under scenario 2 after obtaining the requisite investor consent and no maximum period of retention has been mandated.
22.	Commenters have requested SEBI to clarify that the compliance filing and reporting obligations shall continue only in respect of live schemes and permit surrender of registration certificate only upon end of tenure of all scheme.	Since the compliance relaxations have been provided only to 'inoperative funds', compliance obligations would continue on AIF with at least 1 active scheme. Therefore, no separate clarification is necessary.
23.	Commenters have also suggested that the proposed framework for inoperative AIFs and inoperative schemes be extended to cover Venture Capital Funds (VCFs) registered under the erstwhile SEBI (Venture Capital Funds) Regulations, 1996, which continue to retain liquidation proceeds for similar reasons, including pending or potential tax litigation.	These comments merit consideration. Accordingly, necessary policy/ procedural changes shall be facilitated by SEBI for similarly placed VCFs.

Proposal 4 - Do you agree that AIFs that have not retained monies beyond permissible fund life may also apply for 'inoperative' status?

S. No.	Comments received	SEBI's views
24.	<p>Commenters have agreed with the proposal and are of the view that AIFs which have distributed all capital to investors but continue to exist purely for contingent reasons — such as maintaining a legal persona to receive potential future proceeds from favorable litigation or tax outcomes — should be eligible for inoperative status. It has been submitted that subjecting such funds to comprehensive ongoing compliance requirements, including PPM audit reports, compliance test reports, and quarterly filings, creates a disproportionate burden without commensurate regulatory benefit, given that no fund management activity is being conducted and no investor capital is at risk.</p>	<p>Commenters have agreed with SEBI's views.</p>
25.	<p>Commenters have further suggested that the scope of inoperative status be expanded to cover additional situations. As regards untraceable or deceased investors, it has been suggested that the inoperative classification be extended to AIF schemes that retain monies solely for the purpose of effecting distributions to untraceable or deceased investors, where contact information is outdated or legal heir documentation is pending. It has been submitted that investor consent should not be required for this category of retention, since the retained amounts</p>	<p>SEBI is in consultation with the industry on the possible solutions for addressing this issue. Accordingly, this issue and suggestions have been noted for taking a final view in this matter.</p>

S. No.	Comments received	SEBI's views
	relate solely to the entitlements of those specific investors and not to all investors in the fund.	
26.	As regards schemes that have not achieved first close, it has been suggested that schemes which have not achieved first close and have not onboarded any investors also be accorded inoperative status, given that they face a full compliance burden despite no activity having commenced. It has been further suggested that SEBI consider permitting revival of such schemes upon filing of an application and payment of prescribed fees.	It is pertinent to note that the 'inoperative fund' tag is intended to provide compliance relief to such funds which have completed their investment activity and are forced to continue with the registration due to unforeseen circumstances. It is intended that these funds will close down and surrender their registration upon satisfying the pending liabilities and liquidating the reserves. These inoperative funds are restricted from making any new investment and charging management fees from their schemes, considering there is no active fund management. Thus, AIFs which are in the process of attempting to raise capital before first close to achieve the minimum corpus within 12 months from the date SEBI takes PPM on record are not 'inoperative' per se. Extending this tagging to such funds does not align with the intent of the tagging.

S. No.	Comments received	SEBI's views
27.	There are instances where an entity may like to keep the AIF license dormant and would like to revive the business at a later date. Ability to keep the license in inoperative status will help lower the cost and burden of compliance during the period.	AIFs are intended to be limited life investment vehicles and the proposal in this note are to address the issues at the time of exit and not designed as a mechanism for maintaining a dormant registration pending future fund management activity.
28.	SEBI should consider extending the option to apply for 'inoperative' status even to AIFs that have not retained monies beyond the permissible fund life, particularly in situations where certain investors, such as sovereign wealth funds or multilateral development banks (MDBs), cannot accept in-specie distributions due to internal or regulatory restrictions, requiring the AIF to hold securities until a cash exit is achieved.	In such cases, AIF would continue in its efforts to divest its remaining holding and therefore, such funds are not 'inoperative' per se.
29.	In case of anticipated tax or litigation demand, commenters have suggested AIF should be permitted to obtain NOC from Income Tax Department and where NOC is refused or not granted, AIFs should be permitted to retain funds subject to investor approval and appropriate disclosure along with option to retain operational expenses up to a maximum of 5% of the corpus.	The discretion to apply for NOC from Income Tax Department is with the AIF and SEBI does not have any role to play. In any case, AIFs can retain funds on account of anticipated tax or litigation demand, provided requisite investor approval is obtained. The proposed framework already permits retention of operational expenses

S. No.	Comments received	SEBI's views
		incidental to managing such anticipated litigations.

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.

S. No.	Comments received	SEBI's views
30.	With regard to sub-proposal 5(a), commenters have strongly supported the discontinuation of PPM audit reports, Compliance Test Reports (CTR), and quarterly filings to SEBI for inoperative AIFs and schemes. It has, however, been suggested that the list of rationalized compliances be expanded to include additional requirements that serve no regulatory purpose where no active fund management activity is being undertaken. In this regard, it has been suggested that the following additional compliances also be discontinued for inoperative funds: annual updation of the PPM with SEBI; half-yearly and annual performance benchmarking	Considering that no fund management activity is being carried out in the scenarios detailed in the proposal, additional compliance requirements as found appropriate may be discontinued for 'inoperative funds'.

S. No.	Comments received	SEBI's views
	<p>submissions; STPI filings; compliance with the cybersecurity and cyber resilience framework as prescribed under the SEBI circular dated August 20, 2024; periodic reporting to investors in terms of Regulation 22(a) of the AIF Regulations, including disclosure of financials, risk management information, and portfolio information; the annual report to investors under Regulation 22(g) of the AIF Regulations; consolidated reporting of changes to the PPM during the financial year; and annual digital accessibility audits of digital platforms.</p>	
31.	<p>With regard to sub-proposal 5(b), commenters have agreed with the requirement for an annual status report of retained monies to SEBI and investors. It has been suggested that SEBI prescribe a standardized format for such reports to ensure uniformity and consistency of disclosure across all inoperative funds, and that a clear submission timeline be specified to avoid ambiguity and administrative delays. Commenters have further suggested that the scope of the annual status report be limited to the status of retained liabilities, bank balance position, the quantum retained and its utilization, the expected timeline for resolution of pending matters, and a confirmation of the absence of active</p>	<p>Given that all relevant details related to retention of monies in the scenarios detailed in the proposal are required to be submitted to SEBI at the time of application for tagging as 'inoperative funds' based on the circumstance specific to the AIF, AIFs would be required to submit the said details as an annual status report as well. Therefore, a common format may not be appropriate or necessary.</p> <p>Further, investors have the ability to negotiate information rights with the fund and no</p>

S. No.	Comments received	SEBI's views
	investment activity. It has also been suggested that investors be given the right to request interim status reports as may be required for their internal or statutory compliance purposes.	specific right needs to be provided in this regard.
32.	With regard to sub-proposal 5(c), commenters have agreed with the proposal to require that retained monies be invested in instruments in terms of Regulation 15(f) of the AIF Regulations. One commenter has additionally suggested that retained monies be permitted to be invested in Exchange Traded Funds (ETFs) alongside other currently permissible instruments, given that ETFs provide superior liquidity.	The regulatory intent behind Regulation 15(f) is to preserve capital and invest in less risky and high quality liquid assets. The said regulations provide only an indicative list of High quality liquid assets in which the divestment proceeds can be invested. Therefore, Mangers have the flexibility to divestment proceeds in ETFs of the same nature.
33.	With regard to sub-proposal 5(d), commenters have agreed with the prohibition on launch of new schemes where the entire AIF is classified as inoperative. However, it has been submitted that in a multi-scheme AIF structure, such prohibition should not apply at the AIF level merely because one scheme is inoperative; the restriction should operate only at the level of the inoperative scheme. Commenters have further submitted that a blanket prohibition on new scheme launches may disincentivize fund managers who are genuinely committed to maximizing investor recoveries over a prolonged	Prohibition on launch of new schemes is only applicable in case of AIF is tagged as 'inoperative'. Therefore, no such prohibition applies to multi-scheme AIFs with one or more active schemes.

S. No.	Comments received	SEBI's views
	wind-down period, and that such managers should be encouraged rather than discouraged. Clarification has also been sought as to whether the prohibition applies only to the inoperative AIF trust or extends to the Investment Manager across all its registrations.	
34.	In cases where long-pending tax litigation — extending for five to ten years or more — prevents a scheme from achieving closure, a mechanism be provided for the scheme to surrender its registration, with monies kept on hold against the demand being transferred to the Asset Management Company or Investment Manager.	Acceptance of surrender of registration pending distribution of proceeds of liquidation may have post-facto implications, with investors possibly making a claim on the retained amount in future.
35.	With regard to sub-proposal 5(e), commenters have partially agreed with the prohibition on charging management fees in respect of inoperative schemes. Commenters are of the view that recovery of reasonable administrative and oversight costs incurred during the inoperative period should continue to be permissible. It has further been suggested that, in cases where the retained amounts relate to active tax or litigation matters being defended or pursued for the benefit of unitholders, charging of a management fee on the claim or litigation value should be permissible subject to investor consent,	The proposed framework permits retention of operational expenses incidental to managing ongoing litigations. The 'inoperative fund' tag is intended for funds that have completed their investment and distribution activity, and the charging of a management fee in this context is not considered appropriate.

S. No.	Comments received	SEBI's views
	which may be obtained as standing consent.	
36.	<p>With regard to sub-proposal 5(f), commenters have broadly disagreed with the proposal to prescribe a maximum retention period of three years for amounts retained towards operational expenses. Commenters are of the view that a hard-coded three-year cap is not feasible, particularly for AIFs involved in complex tax proceedings, regulatory adjudications, or contractual disputes, which routinely extend well beyond three years in India. It has been noted that tax litigation in India proceeds through multiple levels of appeal — assessment, first appeal before the Commissioner of Income Tax (Appeals), the Income Tax Appellate Tribunal (ITAT), the High Court, and the Supreme Court — each of which can take one to three years or more. It has further been noted that income tax assessments may be reopened for up to eight years from the end of the relevant assessment year, making a three-year cap operationally unworkable.</p>	<p>It is pertinent to note that the three-year maximum retention period has been proposed specifically for amounts retained towards operational expenses — that is, amounts retained to keep the fund operative for the purpose of winding up, such as consultant fees, retainership costs, legal fees, RTA charges, and similar expenses. Amounts retained on account of pending or anticipated litigation or tax demands are not subject to this three-year cap and may be retained for such period as is required to resolve the relevant liability.</p>
37.	<p>Clarification should be provided on Statutory audit of these schemes.</p>	<p>Relaxations have been proposed only for compliance requirements mandated by SEBI. All other statutory requirements would continue to apply.</p>

Annexure C

Amendment to SEBI (Alternative Investment Funds) Regulations, 2012, shall be notified after following the due process.

Annexure D

Amendment to SEBI (Alternative Investment Funds) Regulations, 2012, shall be notified after following the due process.