

Providing flexibility to AIFs to make co-investment within the AIF structure under SEBI (Alternative Investment Funds) Regulations, 2012

1. Objective

With an objective to enhance ease of doing business for AIFs, this Board Memorandum proposes to amend the SEBI (Alternative Investment Funds) Regulations, 2012 (“AIF Regulations”), to provide flexibility to Alternative Investment Funds (“AIFs”) to allow accredited investors of their funds to make co-investments in unlisted securities through a Co-Investment Vehicle (“CIV”), as a separate scheme of AIFs. This is in addition to the co-investment already allowed through the Portfolio Management Scheme route.

2. Background

- 2.1. In terms of Regulation 2(1)(fa) of AIF Regulations, ‘Co-investment’ is defined as investment made by a manager or sponsor or investor of Category I and II AIF(s) in investee companies where such Category I or Category II AIF(s) make investment. The manager of an AIF (hereinafter referred to as “the Manager”) may offer such co-investment opportunity in unlisted securities of investee company to investors of the AIF at its discretion considering factors such as the size of investment, strategic value of the investor, etc. The Manager and the Sponsor of the AIF may also make co-investment.
- 2.2. In terms of AIF Regulations, co-investment in an investee company by a Manager or Sponsor or co-investor, shall not be on terms more favourable than those offered to the AIF. Further, it is stipulated that co-investment by investors of AIF shall be through a Co-investment Portfolio Manager as specified under the SEBI (Portfolio Managers) Regulations, 2020 (“PMS Regulations”) i.e. through the PMS route.
- 2.3. Prior to introduction of the aforesaid framework for co-investment through PMS route, SEBI had received representations from the AIF industry during FY 2020-21 requesting to allow co-investment facility within the AIF structure by issuance of separate class of units to the co-investors. In support of this ask, the AIF industry had highlighted, inter-alia, the following constraints faced by AIFs, while offering co-investment in unlisted securities:

- 2.3.1. Subsequent to the notification of the PMS Regulations on January 16, 2020, discretionary Portfolio Managers cannot invest funds of their clients in unlisted securities and the Portfolio Managers offering non-discretionary or advisory services can invest or advise investment in unlisted securities only up to 25% of the assets under management of the clients. The co-investment in unlisted securities through the portfolio management route earlier followed by the Managers, became restrictive for such co-investment.
- 2.3.2. As per PMS Regulations, clients have an option for early termination of the portfolio management contract / agreement as well as for the early withdrawal of funds and securities, thereby allowing the investor to exit from an investment before the expiry of the tenure of the contract. If the co-investor makes an early exit/divestment from the investment, such decision may not align the interests of the investors of the AIF with that of the co-investor. This may adversely affect the interests of investors of the AIF. The Manager offering co-investment is expected to align the interests of co-investors with those of the AIF so that the interests of investors of the AIF are not adversely affected by the co-investment.
- 2.3.3. Apart from the portfolio management route, the Manager can advise on co-investment through investment advisory route as well. However, the same also does not enable the Manager to maintain alignment of interests of the investors of the AIF with that of the co-investor, since the co-investor has the discretion to take investment management decisions, including exit from investment.
- 2.4. The aforesaid concerns of the industry were discussed at length in multiple meetings of the Alternative Investment Policy Advisory Committee ('AIPAC'). However, taking into account the recommendations of AIPAC and internal deliberations, the proposal to allow co-investment within the AIF structure by issuing separate class of units to the co-investors was not acceded to, considering the following-

- 2.4.1. AIF is a pooled investment vehicle, where the rights of the investors in investments of and distributions of the returns from the investment of a scheme of an AIF are pro-rata to their commitment in the scheme.
- 2.4.2. Pooling of funds is an essential characteristic of an AIF, except in case of angel funds that are registered under Category I AIFs. This provides the AIF a distinct identity from its investors which should not be compromised.
- 2.5. Another reason for not acceding to co-investment through issuance of separate class of units was that, such structure leads to multiple segregated portfolios for different set of investors within the same scheme of AIF. Such transactions may also facilitate in masking the identity of investors with a potential to holding disproportionate stake without disclosing their identity in an investee company. This may pave the way for misuse of such structures for circumvention of financial sector regulations applicable to the investor or to the investee company.
- 2.6. While the proposal for co-investment through units of AIFs was not accepted, it was viewed that co-investment through PMS route that became restrictive due to reasons as given at para 2.3, may be re-examined to facilitate co-investment within a regulated framework. Accordingly, based on recommendations of AIPAC and internal deliberations, AIF and PMS Regulations were amended in December 2021 enabling Managers of AIFs to offer co-investment in unlisted securities to their investors through the PMS route i.e. the current framework under the PMS Regulations. Various concessions were provided to Co-investment Portfolio Managers with respect to investment in unlisted securities, net worth requirement, disclosure norms etc., considering that the registration is specifically meant for facilitating co-investment for AIF investors.

3. Issues faced by the industry in the existing framework for co-investment through PMS route

- 3.1. Pursuant to Budget announcement for FY 2023-24, SEBI set up a Working Group to review compliance requirements under the AIF Regulations and recommend measures to inter-alia provide ease of doing business and reduce

cost of compliance to the AIF industry (hereinafter referred as “EoDB Working Group”).

3.2. The EoDB Working Group highlighted the following issues in respect of extant Co-Investment framework -

3.2.1. Seeking an additional SEBI registration as a Portfolio Manager is not only an added cost to the Manager but also poses hindrance in offering co-investment rights to the investors due to the conditionality contained under the PMS Regulations.

3.2.2. It affects competitiveness of the domestic Investment Managers as their competitors (global PE funds scouting India deals) are not subject to any constraints on co-investments and can thus easily acquire large stakes in Indian companies or participate in large ticket size deals.

3.2.3. Portfolio companies are sensitive to both the investor profile and the number of investors directly participating on their cap table. Investors on the other hand, seek such participation without the burden of undertaking compliances arising out of such investment. The documentation becomes cumbersome with multiple co-investors and causes delays in timely closing of transactions and in some instances loss of opportunity to participate due to the delays involved, as each co-investor will follow its own process of closure of documentation.

3.2.4. Extant framework under the PMS Regulations requires terms and timing of exit to be identical to the exit of the main fund. However, each co-investor may have its own internal guidelines on exit timeline and thus, prefer to have the right to choose not to exit.

3.2.5. The current framework has an expansive definition of co-investment that also potentially captures situations where an investor of the AIF is directly approached by the portfolio company or where the Investment Manager is not charging any fees or economics for its specific services.

3.2.6. As per the extant regulatory framework, co-investment services can be provided only to investors of such funds where the Sponsor is same and is being managed by the Co-investment Portfolio Manager. This

impedes the ability of Investment Managers to connect investors with appropriate investment opportunity.

3.2.7. The current regime restricts advising on listed securities in the co-investment context or to advise other funds that are operating alongside the AIF on a parallel investment model basis.

4. Recommendations of the EoDB Working Group

4.1. To address the aforementioned issues, the EoDB Working Group compared three models:

- (a) current framework of making parallel investment directly by the investor into the portfolio company through PMS route (Model A),
- (b) issuance of a separate class of units within the fund to track co-investments (Model B), and
- (c) creation of a separate Co-Investment Vehicle (“CIV”) tagged to a fund to enable co-investments (Model C).

4.2. After deliberations, the EoDB Working Group recommended replacing the extant framework for co-investments through the PMS route with Model C i.e. permitting co-investment through a CIV model. The detailed recommendations of the EoDB Working Group in this regard are given at [Annexure A](#).

5. Consultation with stakeholders and public consultation

5.1. Taking into account the recommendations of the EoDB Working Group and internal deliberations, SEBI issued a consultation paper dated May 9, 2025, inviting public comments till May 30, 2025 (copy placed as [Annexure-B](#)), proposing flexibility to AIFs to offer co-investment opportunities to investors within the AIF structure under AIF Regulations. A total of 31 entities have commented on the proposals in the consultation paper. Brief summary of public comments received and SEBI’s views on the same are placed at [Annexure-C](#).

5.2. An agenda, containing the proposals in the abovementioned consultation paper, was also placed in the meeting of AIPAC held on May 19, 2025 for deliberation. AIPAC broadly agreed with the proposals made in the consultation paper and recommended to provide flexibility to AIFs to offer co-

investment opportunities to investors of AIFs through CIV scheme under the AIF Regulations.

5.3. Taking into account the recommendations of EoDB Working Group and AIPAC, public comments received on the consultation paper and internal deliberations, specific issues on the subject have been discussed in paragraphs below.

6. Issues for Consideration

6.1. Co-Investment through a separate Co-Investment Vehicle (CIV) within the AIF framework

6.1.1. EoDB Working Group recommended to allow AIFs to launch a CIV scheme for co-investment in unlisted securities of the investee companies. This would address the issues being faced by the AIFs around an additional PMS Registration for co-investment, and issues with respect to multiple shareholders in the cap table of the investee company, as stated in paras 3.2.1 and 3.2.3 above respectively.

6.1.2. EODB Working Group has suggested to allow a single CIV scheme for all co-investments made under one AIF, and that, if SEBI is of the view that this will impede severely the pro rata construct, allowing one CIV scheme per co-investment with no restrictions as to the number of such CIVs.

6.1.3. However, it was viewed that extending such flexibility within the AIF structure would require necessary safeguards in place, so that such flexibility is not prone to misuse for facilitating circumvention of financial sector regulations as stated in para 2.5 above.

6.1.4. In this regard, it may be noted that a single CIV scheme for multiple co-investments would lead to different portfolios for different set of investors within the same scheme. Thus, SEBI's concerns with respect to allowing co-investment through units of AIFs as stated in para 2.5 above, such as vitiating the concept of AIF being a pooled investment vehicle and masking of identity of investors remain unaddressed in the construct of a single CIV for multiple co-investments under an AIF.

- 6.1.5. However, it is viewed that such concerns may be minimised if EoDB Working Group's suggestion of one CIV scheme per co-investment with no restrictions as to the number of such CIV schemes is accepted along with certain safeguards. Investors of scheme that is making or has made investment in an investee company, can co-invest in the said investee company through the CIV scheme launched for this purpose.
- 6.1.6. With respect to addressing the issue of masking of investor identity in a CIV scheme, it may be noted that a CIV holding only a single investment would provide clear visibility of the holding of each investor of the scheme in the investee company in the Depositories' system, considering that units issued and investments held by AIFs are to be held in demat form. This would aid in monitoring the stake held by an investor in an investee company through CIV scheme, and would provide additional safeguards for co-investments through CIV scheme.
- 6.1.7. AIPAC recommended that co-investment may be offered to the accredited investors of a scheme of AIF, which is making investment or has invested in unlisted securities of an investee company (main investment), through a separate scheme launched under the AIF Regulations, for each co-investment in unlisted securities of an investee company.
- 6.1.8. A total of 29 entities have commented on the proposal to offer co-investment opportunities to investors of AIFs by way of launching a separate CIV scheme in the consultation paper. 28 entities out of 29 entities have commended in favour of the proposed flexibility, with few suggestions of the structuring and operational modalities. Further, 27 entities commented on the proposed construct of the CIV scheme. Out of the 27 entities, 8 entities agreed, 17 entities partially agreed and 2 entities did not agree with the proposed construct of the CIV scheme.
- 6.1.9. Commenters have, inter alia, suggested the following modifications in the construct for offering co-investments through the CIV schemes:
- a. Removing restriction of only accredited investors can co-invest through CIV route

- b. Providing flexibility in deal structures by allowing different classes of units or shares in the CIV for investors joining at different closings, accommodating varied rights and conditions. Further allowing fund managers to warehouse deals temporarily if co-investors face investment delays, analogous to subsequent closings in AIFs.
- c. CIVs to be exempted from mandatory custodian appointment, annual valuation, and audits, if these are performed at the main AIF level. The framework should allow quick setup and flexibility for CIV re-use.
- d. CIVs should be permitted to invest in both listed and unlisted securities as per the investment strategy.
- e. Allowing a single CIV per AIF or umbrella CIV with allocations managed internally should be allowed to reduce compliance burden (fewer bank accounts, PANs, demat accounts).
- f. CIVs structured as Category I or II AIFs should maintain tax pass-through status.
- g. Angel Fund is the nearest proxy to CIVs and, therefore, CIVs should reflect angel fund model.

6.1.10. In respect of the above-mentioned suggestions provided by commenters, following views may be noted, respectively:

- a. In a co-investment, the investor takes a specific call to make the additional investment beyond the exposure via the AIF. It is important that there is some check and balance to ensure that the investor is capable of taking such a call appropriately. Therefore, the condition of co-investor to be AI has been proposed.

Further, co-investment facility within the AIF structure requires certain necessary safeguards. It is imperative that this facility is availed only by the investors of scheme of AIFs to co-invest along with the fund. Further, allowing any investor to co-invest along with a scheme of AIF, would make it a combination of investment advisory

and fund management and would also not align with the concept of co-investment.

- b. Considering that there will be a separate CIV scheme for each co-investment in an investee company where the scheme of AIF invests or has invested, investors joining at a different closing shall have option to co-invest for any co-investment opportunity arising subsequently. Hence, allowing different classes of units in the CIV scheme may not be required. Further, allowing warehousing deals in the co-investment construct would tantamount to leverage at the pool level for the transactions of individuals, which may not be desirable.
- c. In terms of AIF Regulations, custodian is required to be appointed for all the AIFs, as a measure towards ensuring safety of the investments of the fund and also helps in regulatory monitoring. There is no rationale to provide exception to CIV schemes from this requirement. The audit requirement is for adherence to the terms disclosed to investors in the PPM. Considering that a shelf PPM with necessary disclosures with respect to co-investment framework is to be filed for CIV scheme, it is desirable that the said requirement remains applicable on CIV scheme as well.
- d. The rationale to allow co-investment in unlisted securities is that such investment opportunity otherwise may not be available to the investors, since the deal identification and execution is as per the discretion of the manager of AIF. On the contrary, the investor can make investment in listed security anytime through the stock exchange mechanism, since there is information symmetry. Also, allowing CIVs to invest in listed securities would have potential to facilitate circumvention of provisions relating to minimum public shareholding requirement, takeover regulations and insider regulations. In addition, such transactions may be carried out through portfolio managers / investment advisors.
- e. Separate bank and demat account has been proposed to ensure that the assets of each CIV scheme (each of which may have different

set of investors) are segregated and remain free from inter-scheme liabilities. It also helps in regulatory monitoring, since details of co-investor taking exposure in particular investee company through CIV scheme can be accessed real time through depositories system.

- f. Suggestion as regards brevity of shelf PPM has been noted. Further, suggestion that CIVs structured as Category I or II AIFs should maintain tax pass-through status, has also been noted for clarifying with CBDT as appropriate.
- g. The commenters' comparison of CIVs to angel fund seems valid, considering that both are not blind pools and investments are on deal-by-deal basis. Note that the requirement of only AI to invest, has therefore been proposed for both Angel Funds and for CIVs. On a separate note, since the CIV construct is intended to provide flexibility to invest over and above the investment through a blind pool, the said flexibility may not be extended to Angel Funds.

6.1.11. Taking into account the recommendations of EoDB Working Group and AIPAC, public comments received on consultation paper and internal deliberations, it is viewed to allow manager of an AIF to offer co-investment opportunities to investors of a scheme of AIF through CIV route with the following conditions:

- (a) CIV shall be a scheme of Category I or Category II AIFs to facilitate co-investment to investors of the scheme of the AIF, that is making investment or has invested in unlisted securities of an investee company.
- (b) Co-investment through CIV scheme shall be offered only to the Accredited Investors of the scheme of the AIF that is making or has made the investment.
- (c) If an AIF intends to provide co-investment facility to accredited investors of its scheme, a shelf PPM for CIV scheme shall be filed with SEBI through a merchant banker for information, by paying requisite filing fees, before offering co-investment opportunity to the

investors of the scheme for which the shelf PPM is filed. Separate shelf PPMs shall be filed for different schemes of an AIF.

- (d) A separate CIV scheme shall be launched for each co-investment in an investee company in accordance with the shelf PPM, under prior intimation to SEBI.
- (e) The disclosures in shelf PPM shall include principal terms relating to co-investments, governance structure, and regulatory framework for co-investment, etc.
- (f) Each CIV scheme shall have separate bank account and demat account.
- (g) Necessary reporting requirement shall be mandated for monitoring AIFs that make co-investments through CIV schemes.
- (h) The investors shall have rights in the investment of the CIV scheme and in the distribution of proceeds of the investment pro-rata to their contribution to the CIV scheme, except to the extent the carried interest is shared with the sponsor or manager of the AIF or employees of the manager.
- (i) CIV Scheme shall not borrow funds directly or indirectly or engage in any leverage.
- (j) CIV scheme shall invest only in unlisted securities of the investee company and shall not invest in the units of AIFs.
- (k) CIV scheme shall be exempted from certain requirements in AIF Regulations mandated for schemes of AIFs such as minimum corpus, continuing interest requirement, minimum tenure, investment diversification norms etc., in line with the aforesaid construct.
- (l) Angel Funds shall not launch CIV scheme for making co-investment.

6.2. Safeguards to prevent misuse of CIV structure -

- 6.2.1. Some industry members of the AIPAC highlighted that since the CIV scheme can result in single investor (or investors of the same group), investing in a single investee company structure, it is necessary to have robust safeguards in place to ensure that it is not misused to circumvent financial sector regulations applicable to the investor or the investee company.
- 6.2.2. Some members of AIPAC provided the following possible misuses of the CIV construct:
- a. CIV scheme may be used as bypass for Large Value Fund for Accredited Investors (LVF). CIV could replicate the economic exposure of LVFs without being subject to their entry and operational requirements such as the ₹70 crore minimum commitment per investor and the 50% diversification mandate.
 - b. CIV scheme may act as a façade to circumvent regulatory norms w.r.t. sectoral cap, pricing guidelines, overseas investment limits etc. and SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (“ICDR Regulations”) w.r.t. promoter lock in, promoter disclosures, related party requirements etc.
 - c. Regardless of the amount of investment under the main AIF which is pro-rata divided under the blind pool, significantly higher amounts can be invested by cherry picking one/ few of the blind pool investments. Important to note that there is no minimum investment amount for investment in an AIF by accredited investors.
- 6.2.3. The issues highlighted above are valid and underline the need for strong guardrails in place so that the flexibility is utilised for only bona fide transactions. Considering the same, it is proposed that co-investment through CIV schemes shall be subject to the following safeguards –
- (a) Investments of an investor across CIV schemes investing in an investee company, shall not exceed three times the contribution made by such investor in the total investment made in the said

investee company through the scheme of the AIF to which aforesaid CIV schemes are tagged.

The above restriction shall not apply to the following category of investors in CIV schemes i.e. these investors may invest any amount in a CIV scheme. This is considering the fact that there may not be concerns with respect to size of their investment and that these entities have been given exemption from certain other requirements under extant AIF Regulations based on the same rationale:

- i. Multilateral or Bilateral Development Financial Institutions;
 - ii. State Industrial Development Corporations;
 - iii. Entities established or owned or controlled by the Central Government or a State Government or the Government of a foreign country, including Central Banks and Sovereign Wealth Funds.
- (b) In case an investor of a scheme of an AIF does not contribute to the investment made in an investee company by such scheme of AIF, such investor shall not be allowed to invest in the CIV scheme investing in the said investee company.
- (c) The manager shall ensure that the CIV scheme does not make any investment (i) that would lead to its investors acquiring or holding an interest/ exposure in an investee company indirectly, that they cannot acquire or hold directly (ii) or would necessitate additional regulatory disclosure if they had invested directly (iii) or the investee company cannot receive investments from such investor directly.
- (d) CIV scheme shall be subject to implementation standards formulated by Standards Setting Forum of AIFs, in consultation with SEBI, to ensure that the investments by CIV scheme are made for bona-fide purposes and that the flexibility extended in this regard is not misused.

6.3. Continuity of existing framework of offering co-investment through PMS route

- 6.3.1. As mentioned in para 4.2 above, EoDB Working Group recommended replacing the extant framework for co-investments through the PMS route with the aforesaid Model C i.e. permitting co-investment through a CIV model.
- 6.3.2. PMS route allows AIFs to offer co-investments to wider range of investors including non-accredited investors, investors of other schemes of same AIF and the investors of other AIFs under the same set of sponsor and manager. Thus, AIF managers may prefer making co-investments through PMS route, due to flexibility to offer co-investment to wider range of investors.
- 6.3.3. Accordingly, after deliberations, AIPAC recommended continuation of the PMS route for offering co-investment opportunities so that manager has an option to provide co-investment either through PMS route or through CIV route, for each investment opportunity.
- 6.3.4. A total of 26 entities have commented on the proposal of continuation of the current framework of offering co-investment through the PMS route. Commenters are divided on this proposal with 14 commenters favouring discontinuation of the PMS route and 12 commenters suggesting continuation of the PMS route for co-investment.
- 6.3.5. Dissenting commenters are of the opinion that continuing the PMS route alongside CIVs may lead to regulatory arbitrage, inconsistent investor experiences, and fragmented governance frameworks. Single framework for co-investment with enablement for grandfathering of existing co-investment to phase out the use of PMS routes for co-investments once CIVs are operationalized may be considered by SEBI.
- 6.3.6. In this regard it may be noted that, co-investment through CIV scheme is to be seen as an additional flexibility to co-invest. The safeguards proposed in the construct of CIV scheme are to ensure that the flexibility for co-investors to invest in a particular investee company through CIV scheme, does not facilitate in hiding the identity of co-investor to

circumvent regulatory frameworks. Whereas, in case of co-investment through PMS route, investments are made in the name of the co-investor and thus, by construct the identity of the co-investor is known to the company and regulators. Thus, from this regulatory perspective, allowing co-investment through PMS route requires lesser oversight. It is viewed that, since it provides flexibility to industry and the investors, the PMS route may be allowed to be continued.

6.3.7. Taking into account the recommendations of EoDB Working Group and AIPAC, public comments received on consultation paper and internal deliberations, it is viewed that we may allow managers of AIFs to continue with the flexibility of offering co-investment opportunity to investors of AIFs through the PMS route. However, managers of AIFs shall offer one of either PMS route or CIV route for a co-investment by an investor in an investee company.

6.4. Reviewing condition of co-terminus exit from the investment

6.4.1. The requirement of co-terminus exit from the investment by the AIF and the co-investors was stipulated to address the concerns relating to issues of conflict of interest between manager, investors of AIF and co-investors, that may arise if the terms of co-investments (i.e. terms of entry, during the holding of investment and exit from investment) are more favourable to co-investors than those offered to investment by the scheme of AIF.

6.4.2. Also, in case the exit of co-investor is allowed from the investment at the time other than the time of exit of the scheme of AIF or vice-e-versa, there may not be any objectively verifiable criteria to ensure that such exit by the co-investors is not conflicted, and does not adversely affect interest of investors of the main scheme of AIF.

6.4.3. In the past, the AIF Industry had also advocated the need to have a control over the exit of co-investor to protect the interest of investors of AIFs, as a rationale in support of their request to allow co-investment within AIF structure by issuing separate class of units. The EoDB Working Group has also recommended that the tenure of CIV is co-terminus with the main AIF.

- 6.4.4. Considering the same, it is felt that the said terms of exit from the co-investment are appropriate to be identical.
- 6.4.5. AIPAC recommended that the timing of exit of the co-investor from the co-investment in an investee company should be identical/ co-terminus with the exit of scheme of AIF from the investment in the said company. Further, all the terms relating to co-investment should not be more favourable to the investors of CIV scheme as against the investment by the scheme of AIF.
- 6.4.6. A total of 26 entities have commented on the proposal on whether the terms of co-investment by a scheme of AIF and CIV scheme, including the timing of exit, to be identical or not. Total 16 entities have commented to in favour of having identical terms of co-investment by a scheme of AIF and CIV, whereas, 10 entities have suggested that investment through CIVs should not be mandatorily co-terminus with AIFs.
- 6.4.7. Dissenting commenters have suggested that investors may have differing horizons or constraints, and forced exits can lead to suboptimal returns. Thus, strict co-terminus rules with AIFs would hinder commercial efficacy and investor interest. Instead, a principle-based approach focused on fairness, transparency, and investor choice is suggested.
- 6.4.8. However, we may not agree with the suggestions, considering the rationale as explained in the above-mentioned paras 6.4.1, 6.4.2 and 6.4.3.
- 6.4.9. Taking into account the recommendations of EoDB Working Group and AIPAC, public comments received on consultation paper and internal deliberations, it is viewed that, the timing of exit of the co-investor from the co-investment in an investee company shall be identical to exit of scheme of AIF from the investment in the said investee company.
- Further, the terms of co-investment in an investee company by a CIV scheme shall not be more favourable than the terms of investment of the scheme of AIF.

7. Proposal to the Board

7.1. Taking into account the recommendations of EoDB Working Group and AIPAC, public comments received on consultation paper and internal deliberations, it is proposed that AIF Regulations may be suitably amended to:-

- 7.1.1. Provide flexibility to Category I or Category II AIFs to facilitate offering of co-investment opportunities in unlisted securities of investee company through CIV scheme under AIF Regulations, in addition to the existing co-investment route available under the PMS Regulations. CIV scheme shall facilitate co-investment to accredited investors of the scheme of an AIF that is making investment or has invested in unlisted securities of an investee company.
- 7.1.2. Provide definition of “Co-investment Scheme” and “Shelf Placement Memorandum” in AIF Regulations.
- 7.1.3. Specify that AIFs shall file a shelf PPM for CIV scheme with SEBI through a merchant banker for information, along with the payment of fees for filing shelf placement memorandum, before offering co-investment opportunity to the investors of the scheme for which the shelf PPM is filed. Separate shelf PPM shall be filed for different schemes of an AIF.
- 7.1.4. Facilitate AIFs to launch a separate CIV scheme for each co-investment in an investee company, in accordance with shelf PPM, under prior intimation to SEBI.
- 7.1.5. Provide exemptions to CIV scheme from the following requirements:
 - a. Minimum corpus stipulated for a scheme of an AIF
 - b. Manager / Sponsor investment commitment
 - c. Requirements related to minimum tenure specified for a scheme of AIF, calculation of tenure and extension of tenure
 - d. Investment diversification norms and investment conditions applicable to Category I and Category II AIFs
 - e. Disclosures in PPM (separate disclosures to be specified for shelf PPM)

- f. Requirement of first close of a scheme.
 - 7.1.6. Specify that the terms of co-investment in an investee company by a CIV scheme shall not be more favourable than the terms of investment of the scheme of AIF.
 - 7.1.7. Specify that the timing of exit from the co-investment in an investee company shall be identical to exit of the scheme of the AIF from the investment in the investee company.
 - 7.1.8. Specify that CIV scheme shall invest only in unlisted securities of investee company and shall not invest in the units of AIFs.
 - 7.1.9. Specify that angel funds shall not launch CIV scheme for making co-investment
 - 7.1.10. Enable specifying operational modalities and safeguards for offering co-investment through CIV scheme.
 - 7.2. The proposals as specified above shall come into force from the date of notification of amendment in this regard.
 - 7.3. It is proposed to specify the operational modalities by way of issuance of circular, including the following:
 - 7.3.1. Managers of AIFs may continue to have flexibility to offer co-investment opportunities through PMS route. However, managers of AIFs shall offer one of either PMS route or CIV route for a co-investment by an investor in an investee company.
 - 7.3.2. CIV scheme in an investee company shall be launched under prior intimation to SEBI.
 - 7.3.3. Investments of an investor across CIV schemes investing in an investee company shall not exceed three times of the contribution made by such investor in the total investment made in the said investee company through the schemes of the AIF to which aforesaid CIV schemes are affiliated.
- The above restriction shall not apply to the following investors investing in CIV schemes i.e. these investors may invest any amount in a CIV scheme:

- i. Multilateral or Bilateral Development Financial Institutions;
- ii. State Industrial Development Corporations;
- iii. Entities established or owned or controlled by the Central Government or a State Government or the Government of a foreign country, including Central Banks and Sovereign Wealth Funds.

7.3.4. In case an investor of a scheme of an AIF does not contribute to the investment made in an investee company by such scheme of AIF, such investor shall not be allowed to invest in the CIV scheme investing in the said investee company.

7.3.5. The manager shall ensure that the CIV scheme does not make any investment (i) that would lead to its investors acquiring or holding an interest/exposure in an investee company indirectly, that they cannot acquire or hold directly, (ii) or would necessitate additional regulatory disclosure if they had invested directly (iii) or the investee company cannot receive investments from such investor directly.

7.3.6. CIV scheme shall be subject to implementation standards formulated by Standard Setting Forum of AIF, in consultation with SEBI, to ensure that the investment by CIV scheme are made for bona-fide purposes and that the flexibility extended in this regard is not misused.

7.3.7. CIV Scheme shall not borrow funds directly or indirectly or engage in any leverage.

7.3.8. The investors shall have rights in the investment of the CIV scheme and in the distribution of proceeds of the investment pro-rata to their contribution to the CIV scheme, except to the extent carried interest is shared with the sponsor or manager of the AIF or employees of the manager.

7.3.9. Necessary reporting requirement shall be mandated for monitoring purposes for AIFs that make co-investments through CIV schemes.

7.3.10. Other modalities to operationalize the framework, as specified by SEBI from time to time

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

7.5. The Board is requested to consider and approve the proposals as in the Memorandum and authorize the Chairman to make consequential and incidental changes and take necessary steps to give effect to the decisions of the Board.

Enclosures:

1. [Annexure A](#) (14 pages) – Relevant extracts of the EoDB Working Group report.
2. [Annexure B](#) (01 pages) - SEBI Consultation paper dated May 09, 2025.
3. [Annexure C](#) (11 pages) - Brief summary of public comments received and SEBI's views.
4. [Annexure D](#) (01 pages) - Proposed draft amendment to SEBI (Alternative Investment Funds) Regulations, 2012.
5. [Annexure E](#) (01 pages) - The draft notification for the proposed amendment.

Relevant extracts of the EoDB Working Group report.**1. Framework for Offering Co-Investment Opportunities to Investors with AIF Regulations**

1.1. Legal Provision(s): Regulation 2(1)(fa) of AIF Regulations, Regulation 2(1)(fa) of PMS Regulation, Regulation 15(1)(b) of AIF Regulations, and Regulation 20(15) of AIF Regulations

1.2. Issues/Consequences

The current regime for co-investments requires that the Investment Manager offer such co-investment opportunities as “portfolio management services” by seeking registration for itself under the PMS Regulations. The PMS Regulations also lay down the conditions impacting who can be offered the opportunities, nature of the opportunities that can be offered and terms of investing and exiting these opportunities.

At the outset, it would be relevant to emphasise why co-investments are relevant and why the structure in which it is offered, plays a very crucial role. (1) co-investments increase the pool of available capital for the Investment Manager. More capital allows for larger deals and greater diversification. (2) reduced expenses for both co-investors and main fund investors (co-investors share deal-related costs, lowering the burden on the main fund, and economies of scale benefit all stakeholders). (3) co-investment opportunities foster closer interaction between the Investment Manager and co-investors and demonstrates the Investment Manager’s deal execution capabilities and builds trust.

One of the premier examples of investors riding along a main investment vehicle was the opportunity made available to ordinary investors in Berkshire Hathaway, many moons back¹

¹ https://scholar.harvard.edu/files/rzeckhauser/files/investing_in_unknown_and_unknowable.pdf
Richard Zeckhauser, a Harvard economist, is known for popularizing the concept of ****sidecars**** in investing. He saw sidecars as a way to benefit from the special skills some people have at sourcing investments. For instance, early Berkshire Hathaway stockholders invested alongside Warren Buffett, leveraging his expertise. Zeckhauser used the metaphor of a motorcycle sidecar rider to illustrate this collaborative approach.

Accordingly, it is imperative that several issues and challenges posed by the current regime be considered and taken into account in order to arrive at a framework that addresses the concerns:

Investment Manager level issues: (a) The current regime requires obtaining additional registration under the PMS regulations is not only an added cost to the Investment Manager but also poses hindrance in offering co-investment rights to the investors due to the conditionalities contained under the PMS Regulations (please refer to bullet 2 under this chapter); (b) It needs to be examined on a country-by-country basis as to whether providing portfolio management / advisory services could trigger regulatory filings, compliances and registration in the home country of the concerned investor; (c) affects competitiveness of the domestic Investment Managers as their competitors (global PE funds scouting India deals) are not subject to any constraints on co-investments and can thus easily acquire large stakes in Indian companies or participate in large ticket size deals, (d) documentation becomes cumbersome with multiple co-investors and causes delays in timely closing of transactions and in some instance loss of opportunity to participate due to the delays involved as each co-investor will follow its own process of closure of documentation and funding the deal and last but not the least it is not feasible for domestic Investment Managers to undertake co-investments *at scale* i.e. cannot have wider participation of investors in each deal since investee companies do not wish to have many too many co-investors on their cap table; (e) In cases of exit through IPO, the exit is made through multiple deals through the market. Complying with the condition of co-terminus exit for the co-investors and the fund would not be possible in that case as the investments are held in different demat accounts and selling in exact proportion for the fund and each of the co-investors would not be possible.

Portfolio company level issues: (a) Portfolio companies increasingly seek to limit the investor count on their cap table to ease operations that require thresholds of investor consent, (b) There is also significant sensitivity on investor profiles; (c) multiple co-investors makes closing mechanics complicated for the investee companies as each co-investor will have its own document closure and funding steps thus making investee companies vary of disproportionate time and effort when dealing with domestic Investment Managers bringing along co-investors on

their deal; (d) in regulated entities, multiple co-investors should meet the regulatory requirements (like fit and proper criteria being reviewed on quarterly basis by RBI) and any actions in their individual capacity by any of the regulators quite likely may affect the portfolio companies; (e) in case of follow-on investments, the PMS structure makes it mandatory for the investment manager to offer co investment option to all co-investors who have participated in the earlier rounds whereas co-investments are not meant to be offered in all the rounds of investments. (e) Since there could be more investors whenever subsequent rounds happen it becomes operationally challenging for portfolio entity to secure approval from all co investors even where the value of co investment is lower as there is no minimum threshold for co investments.

Investor level issues: (a) direct investment into Indian company casts higher compliance burden on direct investors (including to procure PAN and file tax returns); (b) Extant framework under the PMS Regulations requires terms of exit and timing of exit to be identical to the terms applicable to that of exit of the main fund. However, each co-investor may have its own internal guidelines on exit timeline and thus prefers to have the right to choose not to exit. This is no different than existing shareholders in an unlisted company not being forced to participate in the Offer For Sale (“OFS”) portion of an Initial Public Offering (“IPO”) and thus choosing to stay invested. Hence, co-investors see this as a forced exit when they are expected to be investing ‘directly’ under the extant PMS Regulations.

1.3. Proposal 1

The Working Group recommends replacing the extant framework for co-investments through the PMS Regulations with an alternative (as explained below) through the AIF Regulations.

During its deliberations with SEBI, the Working Group was requested to assess and compare different models for co-investments, along with advantages and drawbacks associated with each model.

The Working Group compared three models: (A) current framework of making parallel investment directly by the investor into the portfolio company (**Model A**), (B) Issuance of a separate Class of Units within the fund to track co-investments (**Model B**), and (C) creation of a separate CIV tagged to a fund to enable co-

investments (**Model C**). Please refer to **Annexure A** for differences between the different models basis identified parameters.

1.4. Recommendation

The Working Group recommends adopting Model C i.e. permitting co-investments through a CIV.

Please note that this alternative is further explained as Model C in **Annexure A** to this Report.

In this context, it would be pertinent to note that introduction of a CIV (effectively a side-car AIF for pooling co-investors), as a light touch regulated vehicle was also one of the proposals of the Parliamentary Standing Committee on Finance². A CIV structure would primarily aim to separate the operations of a particular scheme of the AIF but at the same time provide operational flexibility to the investment managers in pooling investors in the CIV, in ratio of their co-investment right.

Further, from regulatory point of view, the Working Group recommends that:

- CIVs to be allowed to be registered as Category I or Category II AIF (i.e. the same category as the main AIF is registered),
- A shelf PPM of the CIV to be annexed to the PPM of the main AIF at the time seeking registration of the main AIF. The shelf PPM of the CIV to set out in details the following: (a) principles / parameters on which the investors of the main AIF will be offered co-investment right e.g. on basis of quantum of capital commitment to the main AIF. The co-investment policy of the investment manager to be made available for inspection by prospective investors prior to onboarding in the main AIF and (b) only Accredited Investors will be offered co-investment rights.
- The Investment Manager shall seek registration of the CIV at the time of the first co-investment deal by filing the shelf PPM with SEBI and the same shall be deemed approved if no queries from SEBI within 30 days of such filing.

² Thirty Fourth Report, Standing Committee on Finance (2020-21);
https://eparlib.nic.in/bitstream/123456789/811574/1/17_Finance_34.pdf

CIV to be given a separate registration number so as to ensure a separate PAN can be obtained for tax purposes.

- Tenure of CIV to be co-terminus with the main AIF.
- Quarterly filing of the CIV shall be made as per extant format subject to exemptions conferred.
- CIVs to be exempted from the following requirements under the AIF Regulations:

(a) diversification norms per investee company to not be applicable to a CIV as a CIV may end up making only a single co-investment with the main AIF. Hence, CIVs to be exempted from conditions set out under Regulations 15, 16 and 17 of the AIF Regulations.

(b) requirements of SEBI notification dated November 18, 2024³ to not apply to a CIV i.e. ,

(c) no separate sponsor commitment should be required for a CIV since the sponsor would have made its commitment to the main AIF,

(d) minimum tenure of 3 (three) years to not be applicable to a CIV.

Lastly, based on feedback from the AIF Industry, the Working Group is of the view that an Investment Manager should be permitted to set up a single CIV for all co-investments in relation to each main AIF. However, if SEBI is of the view that this will impede severely the pro rata construct set out in the November circular, then SEBI may consider allowing one CIV per co-investment with no restrictions as to the number of CIVs that could co-invest along side the main AIF.

2. Clarifying issues in implementation of extant PMS Regulations Co-Investments framework

- 2.1 **Legal Provision(s):** Regulation 2(1)(fa) of AIF Regulations, Regulation 2(1)(fa) of PMS Regulations, Regulation 15(1)(b) of AIF Regulations and Regulation 20(15) of AIF Regulations

³ SEBI Notification no. SEBI/LAD-NRO/GN/2024/209 dated November 18, 2024

2.2 Issues/Consequences

While the Working Group has identified different models through co-investments may be offered to investors of an AIF, to progress the current framework (which follows **Model A** type of co-investment structure under the PMS Regulations, for more details refer to Annexure A), the Working Group wishes to highlight some of the issues in the extant regime, viz:

- i. The AIF Regulations have an expansive definition of co-investment that also potentially captures situations where an investor of the AIF is directly approached by the portfolio company or by any intermediary who is advising the portfolio company on fund raising;
- ii. Several Investment Managers are not charging any fees or compensation for introducing an investment opportunity to an investor, yet such instances could potentially get captured under the extant co-investment regime;
- iii. The current regime restricts advising on listed securities in the co-investment context or to advise on co-investment opportunities in portfolio of other AIFs. This regulatory constraint poses operational and compliance challenges.
- iv. Regulation 2(1)(fa) of the PMS Regulations stipulate that co-investment services can be provided only to such funds where the Sponsor is same and is being managed by the Co-investment Portfolio Manager – this impedes the ability of Investment Managers to connect investors with appropriate investment opportunity.

2.3 Proposal 2

To address these identified issues under the extant framework for co-investments through the PMS Regulations, the Working Group recommends as follows:

- i. To amend Regulation 2(1)(fa) of AIF Regulations to precisely capture only those co-investments where an AIF investor participates along with the AIF in the same investment round of the AIF's underlying investee company for a fee / compensation to be charged by the Investment Manager. Additionally. (a) permit Investment Manager to advise on listed securities in

the co-investment context, (b) offer co-investment opportunities in portfolios of other AIFs managed by it, and (c) to advise other funds that are operating alongside the main AIF on a parallel investment model basis.

- ii. To amend Regulation 2(1)(fa) of AIF Regulations by adding an explanation / note to clarify and exclude the following situations from the ambit of co-investment: (i) Investment Manager charges no fee (ii) the unitholders of AIF directly negotiate with portfolio company(ies).
- iii. To remove the mandatory requirement of aligning exit timeline of the co-investor with that of the AIF. The co-investor and Investment Manager should be allowed flexibility to decide suitable exit timelines for the co-investments leg of the transaction independent of the AIF's investment. Co-investor should not be forced to exit as that would be detrimental for (x) the AIF (as there may not be a buyer for larger combined stake of AIF and co-investor), (y) the co-investor (who may have a longer holding period capacity) and (z) the investee company as it loses support of a co-investor who is willing to continue to support the investor company for a longer duration.
- iv. To amend Regulation 2(1)(fa) of PMS Regulations to clarify that once the CPMS registration is granted to an Investment Manager, they should be allowed the flexibility to offer co-investment services to investors across all AIFs managed by them as well as other investors who may have not yet invested in the AIF, irrespective of the Sponsors.

Comparison between different formats for implementing co-investment structure

#	Attribute	Parallel investment (current) Model A	Separate Class of Units Model B	Separate Co-Investment Vehicle (CIV) Model C
1	Structure	<p>Investor(s) of an AIF to be allowed to invest alongside the AIF (on same timing and terms), basis Disclosure Document and Client Agreement.</p> <p>The current regime which requires obtaining additional registration under the PMS regulations is not only an added cost to the AIF but also poses hindrance in</p>	<p>The AIF issues a separate class of units to allow any unitholder desirous of exercising co-investment right to participate through an additional amount (disproportionate to the 'general' class) into the relevant underlying investment.</p> <p>Each co-investment shall be tracked by a distinct series of 'Class X Units' issued by the AIF. Under the Fund documents, basis of investment allocation between different classes of units, drawdown mechanism, distributions (and</p>	<p>The CIV could be constituted as a new class of investment vehicle under the AIF Regulations to enable co-investments for a specifically tagged main fund (existing AIF). Such CIVs can be registered under the same Category (I or II) as the registration obtained for the AIF. However, the CIV to be provided the following exemptions / dispensations (i) no need to issue a separate private placement memorandum (PPM), the CIV to be</p>

#	Attribute	Parallel investment (current) Model A	Separate Class of Units Model B	Separate Co-Investment Vehicle (CIV) Model C
		<p>offering co-investment rights to the investors. Hence, this Option A is not a viable option. It has been included merely for analysis purposes.</p>	<p>related giveback obligations and indemnities), shall be tracked / mapped to the relevant series. This will ensure full transparency to all investors as the AIF's audited financial statements will disclose the Classes of units allotted and contributions received in each class from investors.</p>	<p>marketed as a separate chapter in the PPM of the AIF and (ii) diversification limits of 25% of investable funds (as applicable to Category I and Category II AIFs) to not be applicable to a CIV.</p> <p>All investors who are desirous of exercising co-investment right can be pooled in one CIV and co-investments can be made through such CIV. Under the contribution agreement with the main AIF, basis of investment allocation, drawdown</p>

#	Attribute	Parallel investment (current) Model A	Separate Class of Units Model B	Separate Co-Investment Vehicle (CIV) Model C
				mechanism, distributions (and related giveback obligations and indemnities), shall be tracked / mapped to the relevant series issued by the CIV.
2	Participation hurdles	Portfolio companies increasingly seek to limit the investor count on their cap table to ease operations that require thresholds of investor consent. There is also significant sensitivity on investor profiles. Direct investment into Indian company casts higher	AIFs derive significant credibility on account of being regulated by SEBI and are encouraged on the cap table by the investee companies. No separate tax compliances required as investor is already participating in the AIF, and by exercising co-investment right the investor will participate through general class and special class (say Class X).	CIV is a separate AIF; so similarly positioned as the main fund. Investor(s) do not need to undertake any unique India compliance (as such compliances should already be in place for existing AIF to which the CIV is tagged).

#	Attribute	Parallel investment (current) Model A	Separate Class of Units Model B	Separate Co-Investment Vehicle (CIV) Model C
		compliance burden on direct investors (including to procure PAN and file tax returns).		
3	Regulatory coverage	<p><u>Current position:</u> The terms of (a) co-investment not to be more favourable than the terms of investment of the AIF; and (b) the terms of exit including the timing of exit shall be identical to the terms applicable to that of exit of the AIF.</p>	<p><u>Recommended positions:</u> The investments by segregated portfolios (by issuing a separate class of units), (a) not to be more favourable than the terms of investment of the AIF; (b) the terms of exit including the timing of exit shall be identical to the terms applicable to that of exit of the AIF. However, the co-investor to have the right to choose not to exit. This is no different than existing shareholders in an unlisted company not being forced to participate in the offer for sale (OFS) leg of the IPO and thus choosing to stay invested. Hence, it is imperative to not force an exit on co-investors; and (c) appropriate disclosures to be made in the private placement memorandum (PPM) regarding creation of segregated portfolio for participating co-investors under both Model B and Model C.</p> <p>The PPM to have a separate chapter on co-investments under which the Co-Investment Policy should be disclosed in adequate detail,</p>	

#	Attribute	Parallel investment (current) Model A	Separate Class of Units Model B	Separate Co-Investment Vehicle (CIV) Model C
			including framework adopted by Investment Manager to ensure segregation and ring fencing of assets and liabilities.	
5	Investment monitoring mechanism	Each investor directly holds the direct co-investment made by them.	<p>Under Model B and Model C, the co-investment units will be issued in demat form (i.e. same as general units) and tracking of co-investment in the underlying investee company can be achieved. Process explained below:</p> <p>The depository can create and allocate ISIN (International Securities Identification Number) on a combination of (a) a class or series of units on the one hand, and (b) the underlying portfolio company, on the other hand (say Company K – Class X units, Company K – Class Y units, Company L – Class Z units, and so on and so forth). Using this mechanism, the actual capital contribution by an investor to an investment, can be mapped⁴. This could act as a second level check to monitor any breach specified</p>	

⁴ Please note during our conversation with a senior representative of a depository, we were explained that this mechanism of creating ISINs using a combination of a specific class or series of units and mapped to a particular portfolio company is already enabled for certain Category I AIFs that are permitted to launch investment schemes earmarked to each investment separately. This accordingly allows such investment scheme to launch different class and series of units within the same investment scheme tracking the capital contribution made by an investor to the relevant investment. For further clarifications, we can invite a representative of a depository to take their inputs on the processes.

#	Attribute	Parallel investment (current) Model A	Separate Class of Units Model B	Separate Co-Investment Vehicle (CIV) Model C
			above (under 'Eligible investor / eligible investment').	
6	Regulatory framework (India)	Current regulatory framework (under AIF Regulations, PMS Regulations) already enables the implementation. However, there are several bottlenecks making this current regime unviable.	Will facilitate enhanced transparency as SEBI will have line of sight on the terms and conditions between the manager and the investors in relation to co-investment rights since the same would be captured in the PPM and through other governance oversight mechanism (PPM Audit, CTR, investor reports etc.) it will facilitate efficient monitoring by the manager and Trustee.	
	Regulatory framework (overseas)	To be examined on a country-by-country basis on whether providing portfolio management services could trigger regulatory	No separate analysis is required as the investor is making commitment to the AIF (whether under Model B (same AIF, additional class of units) or Model C (i.e. CIV which will be a registered AIF), and for which participation, the required analysis may have been performed at the relevant closing date of such investor's participation to the AIF.	

#	Attribute	Parallel investment (current) Model A	Separate Class of Units Model B	Separate Co-Investment Vehicle (CIV) Model C
		filings, compliances and registration in the home country of the concerned investor.		

Annexure B

The consultation paper is available at the following link:

https://www.sebi.gov.in/reports-and-statistics/reports/may-2025/consultation-paper-on-providing-flexibility-to-aifs-to-offer-co-investment-opportunities-to-investors-within-the-aif-structure-under-aif-regulations_93883.html

Annexure C

Proposal-wise analysis of comments received on this consultation paper -

Prop No.	Proposal Description	No. of people		Total
		Agreed ⁵	Disagreed ⁶	
1	Do you agree with the proposal to allow managers of AIFs to offer co-investment opportunities to investors of AIFs by way of launching a separate CIV scheme?	28	1	29
2	Do you agree with the construct of CIV scheme as proposed in para 10.5 above?	25	2	27
3	Whether to discontinue the current framework of offering co-investment through PMS route, if proposal 1 is implemented?	14	12	26
4	Do you agree that the terms of co-investment by a scheme of AIF and CIV scheme, including the timing of exit, to be identical?	16	10	26
5	Do you agree with the view that there are no conflict of interest concerns in allowing managers of AIFs to provide advisory services on listed securities irrespective of whether the AIFs managed by them have made investments in such listed securities or not?	18	4	22
6	Do you agree with the view that there may be conflict of interest concerns, similar to those in investment in unlisted securities, in allowing managers of AIFs to provide advisory services on listed securities that are thinly traded or not traded, in case their AIFs have invested in such listed securities?	13	5	18

⁵ (Strongly Agree + Agree + Partially Agree)

⁶ (Strongly Disagree + Disagree)

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

Proposal 1:

Do you agree with the proposal to allow managers of AIFs to offer co-investment opportunities to investors of AIFs by way of launching a separate CIV scheme?

S. No	Comments received	SEBI's views
1.	<p>Commenters have agreed with the proposal and mentioned that the proposed approach of establishing Co-Investment Vehicles (CIVs) as separate schemes within existing AIF licenses offers a more streamlined and cost-effective alternative to the current SEBI Portfolio Managers framework. Unlike the current regime, which requires fund managers to obtain a separate license, incurring application fees, registration costs, recurring fees, and GST, the CIV model leverages existing regulatory approvals, reducing compliance burdens. This approach is expected to promote operational efficiency and reduce costs for fund managers, facilitating greater flexibility and ease in offering co-investment opportunities.</p> <p>However, commenters have suggested modifications in the constructs for offering co-investment, same are covered in proposal 2 below.</p>	<p>Commenters agreed with the SEBI's view for providing flexibility to AIFs to offer co-investment opportunities to investors within the AIF structure under AIF Regulations.</p>

Proposal 2:

Do you agree with the construct of CIV scheme as proposed in para 10.5 above?

Suggestions of the commenters on additional flexibilities / exemptions that may be provided to CIV scheme are captured below:

S. No	Comments received	SEBI's views
1.	<p><u>Eligibility and Investor Inclusion:</u> Restricting co-investment only to accredited investors or the exact legal entity investing in the main AIF limits capital flow. Inclusion of non-accredited investors subject to minimum investment thresholds, and allowing affiliates or SPVs with the same UBO to invest, would expand the investor base and capital availability.</p>	<p>Allowing co-investment facility within the AIF structure requires certain necessary safeguards. By the very nature co-investment flexibility is availed by the investors of scheme of AIFs to co-invest along with the fund. Allowing any other person / entity to co-invest along with a scheme of AIF, would make it akin to investment advisory and fund management. Hence, suggestion may not be accepted.</p> <p>As regards allowing only AIs to co-invest, considering that the additional investment in form of co-investment is invested in one single entity, it carries higher risk in comparison to investment through the fund. Therefore, the condition of co-investor to be AI has been proposed.</p>
2.	<p><u>Flexible Deal Structures & Share Classes:</u> Allow different classes of units or shares in the CIV for investors joining at different closings, accommodating varied rights and conditions. Allow fund managers to warehouse deals temporarily if co-investors face investment delays, analogous to subsequent closings in AIFs.</p>	<p>In the proposed framework, there will be a separate CIV scheme for each co-investment in an investee company where the scheme of AIF invests or has invested, investors joining at a different closing may have option to co-invest for any co-investment opportunity arising subsequently. Hence, allowing different</p>

Suggestions of the commenters on additional flexibilities / exemptions that may be provided to CIV scheme are captured below:

S. No	Comments received	SEBI's views
		<p>classes of units in the CIV may not required.</p> <p>Further, allowing warehousing deals in the co-investment construct would tantamount to leverage at the scheme level for the transactions of individuals, which may not be desirable.</p>
3.	<p><u>Simplified Regulatory Framework:</u> The regulatory requirements for CIVs should be tailored with reduced compliance burdens—including exemptions from mandatory custodian appointment, annual valuation, and audits—if these are performed at the main AIF level. The framework should allow quick setup and flexibility for CIV re-use.</p>	<p>In terms of AIF Regulations, custodian is required to be appointed for all the AIFs, which adds to the safety of the investments of the fund and also helps in regulatory monitoring. There is no valid reason to provide exception to CIV scheme from this requirement.</p> <p>Further, considering that the CIV scheme would have same investment that are held by the scheme of AIF, there may not be an additional cost or process for valuing the investments of CIV scheme.</p> <p>The audit requirement is for the adherence with the terms disclosed to investors in the PPM. Considering that a shelf PPM is to be filed for CIV scheme, which would include the necessary disclosures with respect to co-investment framework, it is</p>

Suggestions of the commenters on additional flexibilities / exemptions that may be provided to CIV scheme are captured below:

S. No	Comments received	SEBI's views
		desirable that the said requirement remain applicable on CIV scheme as well.
4.	<p><u>Investment scope flexibility:</u> CIVs should be permitted to invest in both listed and unlisted securities as per the investment strategy.</p>	<p>The rationale to allow co-investment in unlisted securities is that such investment opportunity otherwise may not be available to the investors, since the deal identification and execution is as the discretion of the manager of AIF. To the contrary, the investor can make investment in listed security anytime through the stock exchange mechanism since there is information symmetry. Also, allowing CIVs to invest in listed securities would have potential to facilitate circumvention of provisions relating to minimum public shareholding requirement, takeover regulations and insider regulations. Also, such transactions may be carried out through portfolio managers / investment advisors. Hence, the suggestion may not be accepted.</p>
5.	<p><u>Operational and Compliance Simplification:</u> Launching separate CIV schemes for each co-investment deal is operationally intensive. Preferably, a single CIV per AIF or umbrella CIV with allocations managed internally should be allowed to reduce</p>	<p>Allowing co-investment flexibility within the AIF structure requires certain necessary safeguards both in terms of construct and in terms of obligations. One such safeguard is to ensure that the co-investment transactions are bona fide and that the construct of CIV scheme does not</p>

Suggestions of the commenters on additional flexibilities / exemptions that may be provided to CIV scheme are captured below:

S. No	Comments received	SEBI's views
	<p>compliance burden (fewer bank accounts, PANs, demat accounts). Filing a short-form, deal-specific term sheet instead of a full shelf PPM is recommended, with efficient approval timelines via an online portal.</p>	<p>facilitate the transactions that are otherwise. Accordingly, and to ensure efficient monitoring of the investment of CIV scheme, it is proposed that the CIV scheme is launched separate for each co-investment.</p> <p>Further, separate bank and demat account has been proposed to ensure that the assets of each CIV scheme (which may have different set of investors) are segregated and remain free from the cross scheme liabilities. It also helps in regulatory monitoring, since details of co-investor taking exposure in particular investee company through CIV scheme can be accessed real time through depositories system.</p> <p>Suggestion as regard brevity of shelf PPM has been noted. As regard approval timeline, it has been proposed that CIV scheme may start investing after filing the shelf PPM with SEBI through merchant banker.</p>
6.	<p><u>Tax and Structural Clarifications:</u> CIVs structured as Category I or II AIFs should maintain tax pass-through status. Regulatory guidance should clarify the</p>	<p>Suggestion noted for taking up the views of CBDT in the matter.</p>

Suggestions of the commenters on additional flexibilities / exemptions that may be provided to CIV scheme are captured below:

S. No	Comments received	SEBI's views
	levels at which CIVs must be registered (trust vs. scheme) and the process for PAN issuance.	
7.	Angel Fund is the nearest proxy to CIVs and, therefore, CIVs should reflect angel fund model.	The commenters' comparison of CIVs to angel fund seems valid, considering that both are not blind pools and investments are on deal-by-deal basis. However, since the CIV construct is intended to provide flexibility to invest over and above the investment through a blind pool, the said flexibility may not be extended to Angel Funds.

Proposal 3:

Whether to discontinue the current framework of offering co-investment through PMS route, if proposal 1 is implemented?

S. No	Comments received	SEBI's views
1.	<p>Commenters are divided in their opinion on this proposal.</p> <p>Dissenting commenters are of the opinion that continuing the PMS route alongside CIVs may lead to regulatory arbitrage, inconsistent investor experiences, and fragmented governance frameworks. Multiple frameworks for co-investment would only add to confusion from investors perspective and hence single framework</p>	Co-investment through CIV scheme is to be seen as an additional flexibility to co-invest. The safeguards proposed in the construct of CIV scheme are to ensure that the flexibility for co-investors to invest in a particular investee company through CIV scheme, does not facilitate in hiding the identity of co-investor to avoid circumvent regulatory frameworks. Whereas, in case of co-investment through PMS route, investments are made in the name of the

S. No	Comments received	SEBI's views
	for co-investment with enablement for grandfathering of existing co-investment to phase out the use of PMS routes for co-investments once CIVs are operationalized.	co-investor and thus, by construct the identity of the co-investor is known to the company and regulators. Thus, from the regulatory perspective, allowing co-investment through PMS route require lesser oversight. It is viewed that, if it provides flexibility to industry and the investors, and PMS route may be allowed to continue with.

Proposal 4:

Do you agree that the terms of co-investment by a scheme of AIF and CIV scheme, including the timing of exit, to be identical?

S. No	Comments received	SEBI's views
1.	<p>Commenters have opined that CIVs should not be mandatorily co-terminus with AIFs. Investors may have differing horizons or constraints, and forced exits can lead to suboptimal returns. It is further suggested that only financial terms (e.g., entry price, exit price, economics) should be identical to the AIF. Governance rights may vary based on investor type and commitment.</p> <p>It is also suggested that CIVs should be permitted to continue holding investments or participate in follow-ons post AIF exit, especially where additional value creation is possible. CIVs should have the flexibility</p>	<p>The requirement of co-terminus exit from the investment by the AIF and the co-investors was stipulated to address the concerns relating to issues of conflict of interest between manager, investors of AIF and co-investors, that may arise if the terms of co-investments (i.e. terms of entry, during the holding of investment and exit from investment) are more favourable to co-investors than those offered to investment by the scheme of AIF.</p> <p>Also, in case the exit of co-investor is allowed from the investment at the time other than the time of exit of the scheme of AIF or vice-e-versa, there may not be any</p>

S. No	Comments received	SEBI's views
	<p>to independently exit listed securities. Unlisted debt investments may be retained to avoid burdensome restructuring.</p> <p>Thus, strict co-terminus rules with AIFs would hinder commercial efficacy and investor interest. Instead, a principle-based approach focused on fairness, transparency, and investor choice is suggested.</p>	<p>objectively verifiable criteria to ensure that such exit by the co-investors is not conflicted, and does not affect interest of investors of the main scheme.</p> <p>In the past, the AIF Industry had also advocated the need to have a control over the exit of co-investor to protect the interest of investors of AIFs, as a rationale in support of their request to allow co-investment within AIF structure by issuing separate class of units.</p> <p>Considering the above, the suggestion may not be accepted.</p>

Proposal 5:

Do you agree with the view that there are no conflict of interest concerns in allowing managers of AIFs to provide advisory services on listed securities irrespective of whether the AIFs managed by them have made investments in such listed securities or not?

S. No	Comments received	SEBI's views
1.	<p>Commenters have suggested that the Investment Managers should not be allowed to offer advisory services related to listed securities due to high potential for conflicts — in timing, exit strategy, portfolio overlap, and commercial interests.</p>	<p>Upon deliberation, it is viewed that the concerns highlighted in the public comments and that by XXXX (This has been excised for reasons of confidentiality) appears to be valid and therefore, merits consideration. Accordingly, the proposal shall be reviewed in light of the concerns raised</p>

S. No	Comments received	SEBI's views
	Comments received from XXXX (This has been excised for reasons of confidentiality) separately also highlighted the risk of 'front running' that can occur on part of manager/related entity through the proposed advisory function on the listed securities.	and shall be taken up later, if viewed appropriate.

Proposal 6:

Do you agree with the view that there may be conflict of interest concerns, similar to those in investment in unlisted securities, in allowing managers of AIFs to provide advisory services on listed securities that are thinly traded or not traded, in case their AIFs have invested in such listed securities?

S. No	Comments received	SEBI's views
1.	Commenters have opined that thinly traded and untraded listed debt securities should be treated in the same way as listed debt securities. Listed Debt Securities may not witness an active trading activity such as in the case of listed equity securities. Accordingly, a majority of listed debt securities may be classified as thinly traded or untraded securities. Listed securities (whether actively traded, thinly traded or untraded) have larger disclosure requirements which are available to all investors alike. Further, issuers of Listed Debt Securities (whether actively traded / thinly traded / untraded) are required to obtain credit rating and	As stated in the SEBI's views for proposal no. 5 above, the proposal with respect to advisory on listed securities is to be reviewed and taken up later. Since, this proposal is also relating to advisory on listed securities, this proposal also to be taken up along with the said proposal.

S. No	Comments received	SEBI's views
	make regular disclosures in relation to their financials and compliance with various covenants. This reduces the information asymmetry and thus reduces the conflict of interest. Thus, if adequate internal controls are in place, there should not be any concerns.	

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

Annexure E

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