

Amendments to the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, for facilitating enhanced participation of Mutual Funds in Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs)

1. Objective

This memorandum seeks to review the classification of REITs and InvITs for the purpose of investments by Mutual Funds and seek approval of the Board for carrying out consequent amendments to the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 (hereinafter referred to as 'MF Regulations').

2. Background

2.1. As per the current regulatory framework, a Mutual Fund (MF) scheme can invest in REITs and InvITs, subject to the following:

2.1.1. A MF scheme shall not invest more than 10% of its NAV in units of REIT and InvIT, subject to maximum of 5% of its NAV in units of REIT and InvIT issued by a single issuer. (not applicable for investments in case of index fund or sector or industry specific scheme pertaining to REIT and InvIT).

2.1.2. No MF under all its schemes shall own more than 10% of units issued by a single issuer.

Similarly, there are single issuer limit (10%) and overall limit (20%) applicable for investments by Specialized Investment Funds (SIFs) under the Mutual Fund structure. Further, such funds under all their investment strategies cannot own more than 20% of units issued by single issuer.

2.2. REITs and InvITs are set-up in the form of Trusts under the SEBI (Real Estate Investment Trusts) Regulations, 2014 and SEBI (Infrastructure Investment

Trusts) Regulations, 2014 respectively and have certain distinctive characteristics, such as under:

2.2.1. Unitholders are owners of assets of REITs and InvITs

2.2.2. Mandatory distribution (90%) of net distributable cash flows, subject to cash profits and debt repayments. Thus, the distribution by REITs and InvITs is not guaranteed and depends upon availability of cash profits.

2.2.3. Unitholders having right to vote in material transactions

2.2.4. No obligation for principal repayment and unitholders enjoy only residual interest after creditors are repaid

2.2.5. Restrictions on borrowings by REITs and InvITs

2.2.6. Taxation of REITs and InvITs-

2.2.6.1. Capital gains tax is in line with Equities, while they are defined separately under Income Tax Act, 1961.

2.2.6.2. Due to unique characteristics of these instruments, tax on distribution by REITs and InvITs varies based on type of income distributed (such as dividend, interest, rental, repayment of debt/ capital or capital gains of REIT/ InvIT) and also depends upon if the tax has been paid by individual REIT/ InvIT.

2.3. As per the extant framework, an MF scheme is allowed to invest in 'securities' and the units of REITs and InvITs fall under the inclusive definition of 'securities' in terms of the section 2(h) of the Securities Contracts (Regulation) Act, 1956. Generally, Mutual Funds invest in securities which can be categorically classified as debt, equity, commodity (through commodity derivatives) or gold/ silver instruments.

2.4. A MF scheme is classified as a debt or an equity scheme based upon allowed asset allocation of the respective portfolio of the concerned scheme. Accordingly, for investment by Mutual Funds in REITs/ InvITs by such schemes, an appropriate classification of REITs/ InvITs has to be specified for scheme investment in such instruments.

2.5. Presently, these instruments are classified as hybrid instruments for the purpose of investments by Mutual Funds. The same was decided pursuant to a SEBI Board decision in its meeting in January 2017, wherein it was, inter-alia, noted that REITs and InvITs are hybrid instruments, however their features are more like equity securities and the concentration and liquidity risks require to be addressed.

2.6. SEBI has been receiving representations from certain stakeholders to review the present classification of REITs and InvITs as well as the extant guidelines applicable to Mutual Funds for investments in REITs and InvITs.

2.7. Accordingly, the matter was discussed in detail with the Association of Mutual Funds in India (AMFI) and also deliberated in the Mutual Fund Advisory Committee (MFAC). Subsequent to the above MFAC was of the view that while hybrid classification may be continued with, it can be considered to increase the investment limits (single issuer as well as overall limits) for investment by Mutual Funds in REITs and InvITs.

2.8. Based on the above and further internal deliberations, a consultation paper dated April 17, 2025 (**Annexure A**) was issued, inter alia, seeking comments from the public on the proposal to reclassify these instruments as equity and on the proposal to enhance investment limits. The consultation paper received responses from more than 20 respondents including Department of Economic Affairs, Asset Management Companies (AMCs), REITs and InvITs industry associations and other stakeholders.

3. Summary of public comments and stakeholder views

3.1. With regard to classification of REITs and InvITs as “equity”, while most participants agreed that characteristics of such instruments are more inclined towards equity, it was suggested that the instruments’ classification as hybrid may be more appropriate considering their structure and better demand prospects.

- 3.2. While some of the Asset Management Companies and issuers of REITs/ InvITs have expressed that re-classification to equity may adversely impact inflows to such instruments through MFs especially debt schemes, there are others who feel that the impact could in fact be positive, considering these instruments would be within overall higher equity allocation limits available to equity and hybrid schemes.
- 3.3. Some also expressed that during perceived high market valuations/ uncertainty, investments in REITs/ InvITs can act as relatively low risk investments together with providing diversification benefit, for exposure by equity schemes, and thus, attracting more demand for such instruments.
- 3.4. AMFI has suggested that in case the reclassification of REITs and InvITs as equity is pursued, the case to classify InvITs as hybrid securities is stronger i.e., REITs may be reclassified as equity and InvIT's hybrid classification may be retained. InvITs hold more diverse range of underlying assets such as toll roads, transmission lines, renewable energy projects, etc., with each asset type having distinct cash flow stability, counterparty risk, tenure and regulatory environment. InvITs also tend to have diverse risk profiles, for example, some are annuity-based contracts with government counterparties generating stable cash flows, while some being Build-Operate-Transfer (BOT) projects with reliance on traffic volumes or market-driven revenue streams.
- 3.5. Department of Economic Affairs (DEA) has highlighted that classification of REITs and InvITs as equity may result in uncertainty in the existing investment by debt oriented MF schemes, with a possibility of reduced new investments and liquidation of existing investments by such schemes. DEA has also highlighted the issue of lower liquidity in REITs and InvITs relative to equity shares, which needs to be taken into consideration.
- 3.6. It has also been submitted by AMFI that InvITs encompass a diverse range of underlying infrastructure assets with widely varying risk-return profiles and cash flow characteristics. Hence, continuing to classify InvITs as hybrid securities

allows regulatory flexibility, aligns with their mixed risk-return profile, and enables Mutual Funds to manage investment mandates prudently.

3.7. It has thus been inter alia suggested by AMFI that InvITs given their features and lower liquidity may continue to be treated as hybrid instruments, REITs, on the other hand, may be reclassified as equity with a suitable glide path being provided to debt schemes to liquidate existing holdings and made eligible for inclusion in indices.

3.8. Some of the stakeholders also expressed that allowing REITs and InvITs as part of debt schemes (irrespective of their classification of REITs and InvITs as equity or hybrid) may help such schemes to generate higher returns.

On the other hand, it has also been highlighted by some other stakeholders that since such instruments are more volatile, provide non-fixed returns and have ownership rights, they are riskier than debt asset class. Further, such instruments tend to be perpetual in nature, adding to the complexities, specifically in duration-based schemes. Therefore, debt schemes may not be allowed to take exposure to such instruments.

3.9. With regard to relaxation of investment limits for Mutual Funds, AMFI, MFAC and public comments suggested in favour of relaxing investment limits for REITs and InvITs.

4. Consideration of issues

4.1. From the structure perspective as mentioned at para 2.2 above, REITs and InvITs have characteristics more inclined towards equity, primarily because of unitholders being beneficial owners of assets and receiving residual interest after creditors are paid. However, such instruments are subject to certain restrictions and tax benefits, leading to them having lower risk profile as against listed equity shares.

- 4.2. In recent years, various material changes have been introduced in the regulatory framework of REITs and InvITs, which inter alia include alignment of taxation more with equity and facilitating improved liquidity in such instruments.
- 4.3. With regard to price volatility and returns, REITs and InvITs trade on stock exchanges and do not offer fixed returns as debt instruments. Further, these instruments show price volatility and the distribution of profits is not guaranteed, similar to equity instruments.
- 4.4. It is observed that globally, in many jurisdictions REITs (where InvITs come within the umbrella of REITs) are classified as equity instruments, and form part of equity indices. Notably, Indian REITs form part of certain global equity indices such as MSCI India Small Cap Index, FTSE India Index etc.
- 4.5. In the United States, REITs can be structured as trusts, corporations, or LLCs, with most opting for corporation status while electing REIT treatment under the Internal Revenue Code (IRC) Sections 856–859. In the United Kingdom, REITs must be structured as public limited companies (PLCs) and are governed by Part 12 of the Corporation Tax Act 2010 i.e, trust structures are not permitted.
- 4.6. As regards other major institutional investors in India, it is understood that Employee Provident Fund Organisation and other regulators such as Pension Fund Regulatory and Development Authority and Insurance Regulatory and Development Authority of India do not specifically categorize REITs and InvITs under a particular asset class and provide for separate investment limit for investments in such products.
- 4.7. It is also pertinent to note that REITs are only publicly placed listed instruments while InvITs are both privately and publicly placed. Due to such a difference, variation in liquidity profile of REITs and InvITs has been seen, with REITs being relatively more liquid, while many InvITs do not have trades on exchanges for many days.

(in INR crores)

SR	Name of the REIT	Listed on	Public or Private	Daily Avg. Vol for March 2025 - value on NSE & BSE	Free Float Mcap	Full Float Mcap
1	Brookfield REIT	NSE & BSE	Public	100	12,946	17,602
2	Nexus Select Trust	NSE & BSE	Public	64	15,332	19,731
3	Embassy REIT	NSE & BSE	Public	30	31,981	34,645
4	Mindspace REIT	NSE & BSE	Public	7	8,116	22,829

SR	Name of the InvIT	Listed on	Public or Private	Daily Avg. Vol for March 2025 - value on NSE & BSE	Free Float Mcap	Full Float Mcap
1	National Highways Infra Trust	NSE & BSE	Private	70.20	21,887	25,847
2	PowerGrid	NSE & BSE	Public	28.34	5,878	6,915
3	Anzen India Energy Yield Plus Trust	NSE & BSE	Private	18.33	890	2,080
4	IndiGrid Infrastructure Trust	NSE & BSE	Public	10.14	11,618	11,760
5	Cube InvIT	NSE & BSE	Private	8.27	8,548	16,080
6	Altius Telecom Infrastructure Trust	BSE	Private	5.64	1,784	44,263
7	IRB InvIT Fund	NSE & BSE	Public	4.00	2,364	2,903
8	INTERISE TRUST	NSE & BSE	Private	3.93	9,221	23,503
9	Indus Infra Trust	NSE & BSE	Public	3.86	4,046	4,760
10	Capital Infra Trust	NSE & BSE	Public	3.39	1,411	2,438
11	Shrem InvIT	NSE	Private	1.34	2,346	7,025
12	Sustainable Energy Infra Trust	NSE	Private	1.10	825	3,499
13	NDR INVIT TRUST	NSE	Private	0.58	2,478	4,158
14	Energy Infrastructure Trust	BSE	Private	0.27	1,407	5,627
15	IRB INFRASTRUCTURE TRUST	NSE	Private	NA	17,196	35,108
16	Digital Fibre Infrastructure Trust	BSE	Private	NA	9,889	19,380
17	Roadstar Infra Investment Trust	NSE & BSE	Private	NA	3,550	3,550

18	Maple Infrastructure Trust	BSE	Private	NA	1,268	5,071
19	Intelligent Supply Chain Infrastructure Trust	BSE	Private	NA	400	3,048
20	Vertis Infrastructure Trust	NSE	Private	NA	NA	12,673
21	Oriental InfraTrust	NSE & BSE	Private	NA	NA	NA
22	Nxt-Infra Trust	NSE	Private	NA	NA	NA

Data as on March 31, 2025

4.8. Currently, REITs and InvITs form part of investments by both equity and debt schemes of Mutual Funds. The data on exposure by MF schemes as on March 31, 2025 is tabulated below:

(in INR crores)

Scheme Type	No of Schemes	AUM of such Schemes	Investment in REITs	Investment in InvITs	Investment by MFs in REITs and InvITs (# ISINs) = 17
Equity	35	2,63,841	4,726	465	
Debt	24	47,812	1,070	769	
Hybrid	58	5,92,801	8,468	3,977	
Solution Oriented	12	24,452	146	198	
Total	129	9,28,906	14,410	5,409	

Overall exposure of Mutual Funds to REITs stood at INR 14,410 crores, whereas to InvITs was recorded at INR 5,409 crore as on March 31, 2025. Upon examining the data of relative investments into REITs vis-à-vis InvITs at scheme category level, it is observed that in case of equity oriented schemes, the investments made in InvITs are not even one tenth of those made by such schemes in REITs. Nevertheless, the same form a very small proportion as compared to overall MF industry AUM of INR 66 lakh crore.

4.9. Considering all the above, there may be merit in considering a re-classification of the REITs and InvITs instruments. Accordingly, as far as REITs are concerned, with improved liquidity, their re- classification into equity may be considered at this stage. The same is expected to attract more investments by Mutual funds (including Specialised Investment Funds) as they will be able to invest as part of their equity allocation and also as such instruments would

become eligible to be considered for inclusion in equity indices. The re-classification is also expected to further enhance liquidity of such instruments and also provide much needed alignment with global practice.

However, with respect to InvITs, given the diverse range of underlying infrastructure assets with widely varying risk-return profiles, fewer public listed instruments, relatively lower liquidity and more stable cash flows from infrastructure products, the same may continue to be considered as hybrid instruments for the purpose of investments by Mutual Funds.

4.10. Consequently, in case of classification of REITs as equity, the current investment limits as mentioned at para 2.1 gets freed up for investment by Mutual Funds (including Specialized Investment Funds) entirely in InvITs, and thus there may not be any need to increase the limit further, including the existing single issuer limit. Therefore, it is proposed to allow specified MF schemes to invest up to 10% (20% in SIFs) in InvITs (the current limits for both REITs and InvITs) and also retain the extant single issuer limit for investments in InvITs.

5. Proposal

5.1. In view of above, it is proposed that REITs may be reclassified as equity for the purpose of investments by Mutual Funds and Specialized Investment Funds, with effect from January 01, 2026. All investments in REITs held by debt Mutual Fund schemes till December 31, 2025 may be grandfathered. However, AMCs may be encouraged to make efforts to offload REITs from debt schemes depending upon the market conditions, liquidity and interest of investors.

5.2. As regards the InvITs, the same may continue to be classified as hybrid instruments for the purpose of investments by Mutual Funds as well as SIFs.

5.3. The current investment limits of eligible schemes of Mutual Funds and SIFs for investment in InvITs would get freed up as a consequence of equity

classification of REITs. Accordingly, there may not be further need to increase the current limits (presently for both REITs and InvITs).

6. Regulatory amendments to the MF Regulations

6.1. To give effect to the proposals mentioned at para 5 above, it is proposed to include REITs in the definition of equity related instruments at regulation 2(1)(ja) of the MF Regulations and make consequent amendments at regulations 49AA(2), 49AA(3), 49AA(4) and Para 2, 10 and 13 of the seventh schedule of the MF Regulations.

7. Proposal for consideration and approval of the Board

7.1. The Board may consider and approve the proposals outlined in para 5 above. The draft amendments to the SEBI (Mutual Funds) Regulations, 1996, and the draft notification for the proposed amendment are placed at **Annexure B** and **Annexure C** respectively.

7.2. The Board may authorize the Chairperson to carry out suitable amendments to the regulations and to take any other consequential or incidental steps for implementation of the decisions of the Board.

Encls: 1. Annexure A to Board Memorandum no. 66/2025 (6 pages)

2. Annexure B to Board Memorandum no. 66/2025 (3 pages)

3. Annexure C to Board Memorandum no. 66/2025 (7 pages)



Consultation Paper on investment by Mutual Funds in Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs)

1. Objective

- 1.1. The objective of this consultation paper is to solicit comments on the proposal to enhance limits for investments by Mutual Funds in REITs and InvITs, thereby providing more investment avenues and further diversification to schemes of Mutual Funds. The proposal is also expected to increase the capital inflow into these instruments, broadening their market base and liquidity.

2. Background

- 2.1. As per the current regulatory framework, an MF scheme can invest in REITs and InvITs, subject to the following:
- 2.1.1. A MF scheme shall not invest more than 10% of its NAV in units of REIT and InvIT, subject to maximum of 5% of its NAV in units of REIT and InvIT issued by a single issuer. (not applicable for investments in case of index fund or sector or industry specific scheme pertaining to REIT and InvIT)
- 2.1.2. No MF under all its schemes shall own more than 10% of units issued by a single issuer.
- 2.2. The term “equity related instruments” has been defined under the SEBI (Mutual Funds) Regulations, 1996, as under:
- “Equity related instruments” include convertible debentures, convertible preference shares, warrants carrying the right to obtain equity shares, equity derivatives and such other instrument as may be specified by the Board from time to time;

2.3. In this regard, SEBI has been receiving representations from certain stakeholders to inter alia consider the following:

2.3.1. Possibility of classification of REITs and InvITs as Equity and their inclusion in equity indices.

2.3.2. Dedicated MF scheme category for REITs and InvITs.

2.3.3. Relaxing investment restrictions in REITs and InvITs for MF schemes.

3. Consideration of the representations received

3.1. Classification of REITs and InvITs as equity and their inclusion in equity indices:

The matter regarding classification of REITs and InvITs had been earlier deliberated by the SEBI Board in its meeting in January 2017, wherein it was considered and noted that REITS and InvITs by virtue of their unique features are hybrid instruments. However, SEBI has been receiving representations from stakeholders that given characteristics of such instruments, their classification may be reviewed.

3.2. Features of REITs and InvITs: As part of aforesaid representation, attention is drawn to the following features of the REITS and InvITs:

- Unitholders are owners of assets of REITs and InvITs
- Distribution (90%) of net distributable cash flow not being guaranteed and varies depending on the performance of individual REITs and InvITs
- Unitholders having right to vote in material transactions
- No obligation to principal repayment
- There are restrictions on borrowings by REITs and InvITs

3.3. It is observed that globally, in some jurisdictions REITs and InvITs are classified as equity instruments, and form part of equity indices. It is also observed that Indian REITs form part of some of the global equity indices such as MSCI India Small Cap Index, FTSE India Index etc.

3.4. In view of the above, the issue was taken up with the Association of Mutual Funds in India (AMFI) and also deliberated in the Mutual Fund Advisory Committee (MFAC). Pursuant to deliberations, AMFI and MFAC were of the view that the REITs and InvITs should be classified as hybrid securities rather than as equity or debt securities, inter alia, due to difference in the structure related to their cash flows, dividends, half-yearly Net Asset Value (NAV) calculation based on valuation, voting rights limited to certain operational decisions etc. Further, it was deliberated by MFAC as to whether the inclusion of these instruments as constituents of equity indices would be appropriate and fair to investors in schemes following such indices as benchmark.

3.5. Currently, REITs and InvITs form part of investments by both equity and debt mutual fund schemes. The data on exposure by MF schemes as on December 31, 2024 is tabulated below:

Scheme Type	# Schemes	AUM of such Schemes (Cr.)	# Unique ISINs	Investment in REITs and InvITs (Cr.)	Exposure % of AUM in REITs and InvITs by such schemes		
					Average	Median	Max
Equity	32	2,60,914	14	4,910	2.1%	1.8%	7.0%
Debt	20	43,788		1,766	3.7%	2.7%	9.4%
Hybrid	53	5,76,008		13,072	2.4%	2.0%	9.6%
Solution Oriented	10	19,956		339	1.8%	0.8%	8.4%
Total	115	9,00,666		20,087	2.5%	1.9%	

Consultation No. 1:

REITs and InvITs combine the features of both equity and debt instruments and thus, is there a merit in classifying such securities as “equity” and their consequent inclusion in equity indices for the purpose of investment by Mutual Funds? Please provide comments alongwith supporting rationale.

3.6. The data of listed REITs and InvITs for the month of November, 2024 is tabulated below for reference:

(in INR crores)

SR	Name of the REIT	Listed on	Vol value on NSE & BSE	Free Float Mcap	Full Float Mcap
1	Embassy REIT	NSE & BSE	41.3	32,460	35,221
2	Brookfield REIT	NSE & BSE	11.5	8,301	13,872
3	Mindspace REIT	NSE & BSE	7.5	7,992	21,885
4	Nexus Select Trust	NSE & BSE	3.6	16,961	21,827
SR	Name of the InvIT	Listed on	Vol value on NSE & BSE	Free Float Mcap	Full Float Mcap
1	Indus Infra Trust	NSE & BSE	35.3	4,325	5,088
2	National Highways Infra Trust	NSE & BSE	26.2	14,530	17,190
3	Energy Infrastructure Trust	BSE	19.0	1,428	5,710
4	India Grid Trust	NSE & BSE	16.1	11,577	12,011
5	Powergrid Infrastructure Investment Trust	NSE & BSE	8.6	6,705	7,889
6	Altius Telecom Infrastructure Trust	BSE	5.8	19,173	46,622
7	Cube Highways Trust	NSE & BSE	3.0	8,487	16,013
8	IRB InvIT Fund	NSE & BSE	2.2	2,827	3,365
9	IRB Infrastructure Trust	NSE	No trading	12,012	24,526
10	Interise Trust	NSE & BSE	No trading	3,343	12,931
11	Shrem InvIT	NSE	No trading	2,383	7,120
12	Sustainable Energy Infra Trust	NSE	No trading	1,350	3,499
13	Maple Infrastructure Trust	BSE	No trading	1,057	4,226
14	Anzen India Energy Yield Plus Trust	NSE & BSE	No trading	465	1,604
15	Nxt-Infra Trust	NSE	No trading	404	2,888
16	Highways Infrastructure Trust	NSE	No trading	117	6,837
17	Roadstar Infra Investment Trust	Not listed yet	To be listed	To be listed	To be listed
18	Oriental Infra Trust	NSE	No trading	No trading since listing	No trading since listing

3.7. Dedicated scheme for REITs and InvITs: Pursuant to consideration of the matter, AMFI recommended that such scheme may be considered in the medium to long term. Subsequently, MFAC also recommended that considering the limited universe of REITs and InvITs as on date and the lack of liquidity offered by such instruments listed on the exchanges, it may not be desirable at this stage to introduce a dedicated scheme for Mutual Fund for investing in REITs and InvITs.

3.8. Relaxing investment restrictions in REITs and InvITs for MF schemes: MFAC after giving consideration to actual number of listed REITs and InvITs, their volumes and features, was of the view that the current limits can be enhanced, especially for equity schemes. Considering the recommendations made by MFAC in this regard, the following is proposed:

3.8.1. As current single issuer and overall limits of 5% and 10% respectively in REITs and InvITs restricts Mutual Funds desirous of taking exposure in REITs and InvITs as asset class, the single issuer limits may be revised similar to limits applicable to investments in equity/ debt instruments, i.e. 10% of NAV of fund.

3.8.2. With regard to current overall 10% exposure limit for REITs and InvITs in funds NAV, the same may be revised to 20% for Equity and Hybrid Schemes. However, for Debt Schemes, the same may be kept limited to 10%, considering REITs and InvITs being relatively riskier than debt instruments and perpetual in nature.

3.8.3. The proposal is summarized as under:

Scheme Type	Single Issuer limits		Overall limits	
	Existing	Proposed	Existing	Proposed
Equity Schemes	5%	10%	10%	20%
Hybrid Schemes		10%		20%
Debt Schemes		10%		10%

Consultation No. 2:

Whether the proposals regarding relaxation in investment restrictions in REITs/ InvITs for MF schemes are found to be appropriate?

Consultation No. 3:

Any other suggestions on the proposal may be provided with rationale.

Public Comments on this Consultation Paper

1. Public comments are invited for the proposals as mentioned above. The comments/suggestions should be submitted through the following link by **May 11, 2025**:

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

2. In case of any technical issue in submitting your comments through web based public comments form, you may contact the following through email with a subject "**Consultation Paper on investment by Mutual Funds in Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs)**":
 - a) Mr. Lakshaya Chawla, DGM (lakshayac@sebi.gov.in)
 - b) Mr. Pranay Agrawal, M (pranaya@sebi.gov.in)

Issued on: April 17, 2025

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(End of Consultation Paper)

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