



CIRCULAR

SEBI/HO/AFD/PoD/CIR/2023/054

April 10, 2023

To,

All Alternative Investment Funds

Sir/Madam,

Sub: Direct plan for schemes of Alternative Investment Funds (AIFs) and trail model for distribution commission in AIFs

1. SEBI Circular No. SEBI/HO/IMD/DF6/CIR/P/2020/24 dated February 05, 2020 introduced template(s) for Private Placement Memorandum (PPM) for AIFs, in order to ascertain that certain minimum level of information in a simple and comparable format is disclosed to investors. The aforesaid PPM template(s), *inter-alia*, provides for disclosure with respect to Direct Plan for investors, and constituents of fees that may be charged by the AIF/ scheme of AIF, including distribution fee/ placement fee.
2. In this context, to provide flexibility to investors for investing in AIFs, bring transparency in expenses and curb mis-selling, following is specified:

A. Direct Plan for schemes of AIFs

- i. Schemes of AIFs shall have an option of 'Direct Plan' for investors. Such Direct Plan shall not entail any distribution fee/ placement fee.
- ii. AIFs shall ensure that investors who approach the AIF through a SEBI registered intermediary which is separately charging the investor any fee (such as advisory fee or portfolio management fee), are on-boarded via Direct Plan only.

B. Trail model for distribution commission in AIFs

- i. AIFs shall disclose distribution fee/ placement fee, if any, to the investors of AIF/scheme of AIF at the time of on-boarding.
- ii. Category III AIFs shall charge distribution fee/ placement fee, if any, to investors only on equal trail basis i.e. no upfront distribution fee/ placement fee shall be charged by Category III AIFs directly or indirectly to their investors.



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Further, any distribution fee/ placement fee paid shall be only from the management fee received by the managers of such Category III AIFs.

- iii. Category I AIFs and Category II AIFs may pay upto one-third of the total distribution fee/ placement fee to the distributors on upfront basis, and the remaining distribution fee/ placement fee shall be paid to the distributors on equal trail basis over the tenure of the fund.
3. The aforesaid provisions shall be complied with for investors on-boarded in AIFs/ schemes of AIFs from May 01, 2023 onwards.
4. This circular is issued with the approval of the competent authority.
5. This circular is issued in exercise of powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.
6. The circular is available on SEBI website at www.sebi.gov.in under the categories "Legal framework - Circulars" and "Info for - Alternative Investment Funds".

Yours faithfully,

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