



CIRCULAR

SEBI/HO/AFD/PoD-I/P/CIR/2023/098

June 21, 2023

To,
All Alternative Investment Funds

Sir/Madam,

Sub: Modalities for launching Liquidation Scheme and for distributing the investments of Alternative Investment Funds (AIFs) in-specie

1. SEBI (Alternative Investment Funds) Regulations, 2012 ("AIF Regulations"), have been amended and notified on June 15, 2023, *inter alia*, to provide flexibility to AIFs to deal with investments of their schemes which are not sold due to lack of liquidity during the winding up process, by either selling such investments to a new scheme of the same AIF ('Liquidation Scheme') or distributing such unliquidated investments in-specie. Copy of the notification is available at [link](#), wherein, *inter alia*, the following new regulations have been inserted in AIF Regulations –

- 1.1. Regulation 2(1)(pb): *"'liquidation period' means a period of one year following the expiry of tenure or extended tenure of the scheme for fully liquidating the scheme of an Alternative Investment Fund."*
- 1.2. Regulation 2(1)(pc): *"'Liquidation scheme' means a close ended scheme launched by an Alternative Investment Fund only for the purpose of liquidating the unliquidated investments purchased from its scheme, whose tenure has expired."*
- 1.3. Regulation 29(9): *"Notwithstanding anything contained in sub-regulation (7), during liquidation period of a scheme, an Alternative Investment Fund may distribute investments of a scheme which are not sold due to lack of liquidity, in-specie to the investors or sell such investments to a liquidation scheme, after obtaining approval of at least seventy five percent of the investors by value of their investment in the scheme of the Alternative Investment Fund, in the manner and subject to conditions specified by the Board from time to time."*

Provided that in the absence of consent of unit holders for exercising the options under sub-regulation (9) during liquidation period, such investments of the scheme of the Alternative Investment Fund shall be dealt with in the manner as may be specified by the Board from time to time."

2. In this regard, the following is specified –

2.1. Liquidation Scheme:

- (i) During the Liquidation Period of a scheme of an AIF ('Original Scheme'), if the AIF decides to launch Liquidation Scheme, the AIF shall obtain consent of 75% of investors by value of their investment in the Original Scheme.



- (ii) The scheme launched by the AIF for this purpose shall contain the words 'Liquidation Scheme' in its name.
- (iii) Upon obtaining the requisite investor consent for launching Liquidation Scheme, the AIF shall arrange bid for a minimum of 25% of the value of the unliquidated investments. The bid shall be arranged for units representing consolidated value of each unliquidated investment of the Original Scheme's investment portfolio.
- (iv) The AIF shall disclose the bid value, along with the valuation of the unliquidated investments carried out by two independent valuers, to all the investors of the Original Scheme.
- (v) The dissenting investors of the Original Scheme who did not consent to sell the unliquidated investments to the Liquidation Scheme, shall be offered an option to fully exit the Original Scheme out of the 25% bid arranged by the AIF/ manager. After exercising the exit option by aforesaid dissenting investors, any unsubscribed portion of the bid shall be used to provide pro-rata exit to non-dissenting investors.
- (vi) If the bidder or its related parties are investors in the Original Scheme, they shall not be provided exit from the Original Scheme out of the bid. [Related party shall have same meaning as provided in SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.]
- (vii) Subsequently, the unliquidated investments of the Original Scheme shall be sold to the Liquidation Scheme. For capturing in the track record of the manager and for reporting to Performance Benchmarking Agencies, the value of such sale shall be –
 - a. Bid value, if the AIF/ manager arranges bid for a minimum of 25% of the value of unliquidated investments of the Original Scheme.
 - b. One Rupee, if the AIF/ manager fails to arrange bid for a minimum of 25% of the value of unliquidated investments of the Original Scheme.
- (viii) Liquidation Scheme shall allot its units to the Original Scheme for purchasing investments from Original Scheme in the manner specified above.
- (ix) Upon receipt of units of Liquidation Scheme, the Original Scheme shall mandatorily distribute such units of Liquidation Scheme in-specie in lieu of its units issued to investors.
- (x) The Liquidation Scheme shall be launched and Original Scheme shall be wound up, prior to the expiry of the Liquidation Period of the Original Scheme.
- (xi) In terms of Regulation 29A(2), Liquidation Scheme has been provided exemption, *inter alia*, from the requirement of obtaining SEBI's comments on the PPM. Accordingly, the tenure of the Liquidation Scheme shall be calculated from the date of filing of PPM with SEBI and such tenure shall

not be more than the tenure of the Original Scheme excluding any permissible extension.

- (xii) Liquidation Scheme shall not extend its tenure or sell its investments to another Liquidation Scheme. Further, Liquidation Period, as defined in Regulation 2(1)(pb), shall not be available to Liquidation Scheme.
- (xiii) If an AIF (viz. A1) has invested in units of another AIF (viz. A2) and the investee AIF (i.e. A2) has launched a Liquidation Scheme, then the investor AIF (i.e. A1) upon expiry of its tenure or extended tenure, shall mandatorily distribute the units of Liquidation Scheme held by it, in-specie to its investors (i.e. investors of A1).
- (xiv) Performance of Liquidation Scheme shall also be reported to Performance Benchmarking Agencies, in terms of SEBI Circular No. SEBI/HO/IMD/DF6/CIR/P/2020/24 dated February 05, 2020.
- (xv) While obtaining the requisite investor consent, manager shall disclose to the investors that the value of the unliquidated investments sold to the Liquidation Scheme shall be in the manner given at para 2.1(vii) above, for capturing in the track record of the manager and for reporting to Performance Benchmarking Agencies.

2.2. In specie distribution of unliquidated investments of a scheme:

- (i) During the Liquidation Period of an Original Scheme of an AIF, if the AIF decides to distribute unliquidated investments in-specie, the AIF shall obtain consent of 75% of investors by value of their investment in the Original Scheme.
- (ii) Upon obtaining the requisite investor consent for in-specie distribution of unliquidated investments, the AIF shall arrange bid for a minimum of 25% of the value of the unliquidated investments. The bid shall be arranged for units representing consolidated value of each unliquidated investment of the Original Scheme's investment portfolio.
- (iii) The AIF shall disclose the bid value along with the valuation of the unliquidated investments carried out by two independent valuers to all the investors of the Original Scheme.
- (iv) The dissenting investors of the Original Scheme who did not consent to in-specie distribution, shall be offered an option to fully exit the Original Scheme out of the 25% bid arranged by the AIF/ manager. After exercise of the exit option by aforesaid dissenting investors, any unsubscribed portion of the bid shall be used to provide pro-rata exit to non-dissenting investors.
- (v) If the bidder or its related parties are investors in the Original Scheme, they shall not be provided exit from the Original Scheme out of the bid. [Related party shall have same meaning as provided in SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.]



- (vi) Subsequently, the unliquidated investments shall be distributed in-specie. For capturing in the track record of the manager and for reporting to Performance Benchmarking Agencies, the value of such in-specie distribution shall be –
 - a. Bid value, if the AIF/ manager arranges bid for a minimum of 25% of the value of unliquidated investments of the Original Scheme.
 - b. One Rupee, if the AIF/ manager fails to arrange bid for a minimum of 25% of the value of unliquidated investments of the Original Scheme.
- (vii) The in-specie distribution shall be carried out and Original Scheme shall be wound up, prior to the expiry of the Liquidation Period of the Original Scheme.
- (viii) While obtaining the requisite investor consent, manager shall disclose to the investors that the value of the unliquidated investments distributed in-specie shall be in the manner given at para 2.2(vi) above, for capturing in the track record of the manager and for reporting to Performance Benchmarking Agencies.

2.3. Mandatory in-specie distribution of unliquidated investments:

If the AIF fails to obtain requisite investor consent for launch of Liquidation Scheme or in-specie distribution of unliquidated investments, then the unliquidated investments shall be mandatorily distributed to investors in-specie, without requirement of obtaining consent of 75% of investors by value of their investment in the scheme of the AIF. The value of such investments distributed in-specie shall be recognised at One Rupee for capturing in the track record of the manager and for reporting to Performance Benchmarking Agencies. In case any investor not willing to take the in specie distribution of unliquidated investments, such investments shall be written off.

2.4. Responsibility for compliance:

- (i) The manager, trustee and key management personnel of AIF and manager shall be responsible for compliance with the procedure prescribed above.
- (ii) The manager of AIF, upon exercising any of the options mentioned above, shall submit report on compliance with the provisions of this circular on SEBI Intermediary Portal (www.siportal.seb.gov.in) in the format as specified therein.
- (iii) The manager of AIF shall report the value, as specified above, with regard to sale of unliquidated investments to Liquidation Scheme or distribution of unliquidated investments in-specie, to Performance Benchmarking Agencies in a timely manner for the purpose of performance benchmarking. The manager shall also make suitable disclosure with regard to the same in the PPMs of subsequent schemes.



- (iv) The trustee/ sponsor of AIF, as the case may be, shall ensure that the 'Compliance Test Report' prepared by the manager in terms of SEBI Circular No. CIR/IMD/DF/14/2014 dated June 19, 2014, includes compliance with the provisions of this circular.
3. This circular shall come into force with immediate effect.
 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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