

# A New Dawn for AIF Investments in India

RBI's 2025 Directions pivot from restriction to a regulated framework, set to unlock significant capital formation in the Alternative Investment Fund sector.

## The Journey to Regulatory Clarity

### Dec 2023 & Mar 2024

RBI issues restrictive circulars, creating uncertainty and slowing RE investments into AIFs due to concerns over downstream exposure.

### May 2025

Draft guidelines are released for industry feedback, signaling a move towards a more balanced and structured regulatory approach.

### July 29, 2025

Final "Investment in AIF Directions, 2025" are issued, repealing prior circulars and establishing clear, new rules effective Jan 1, 2026.

### Individual RE Limit

10%

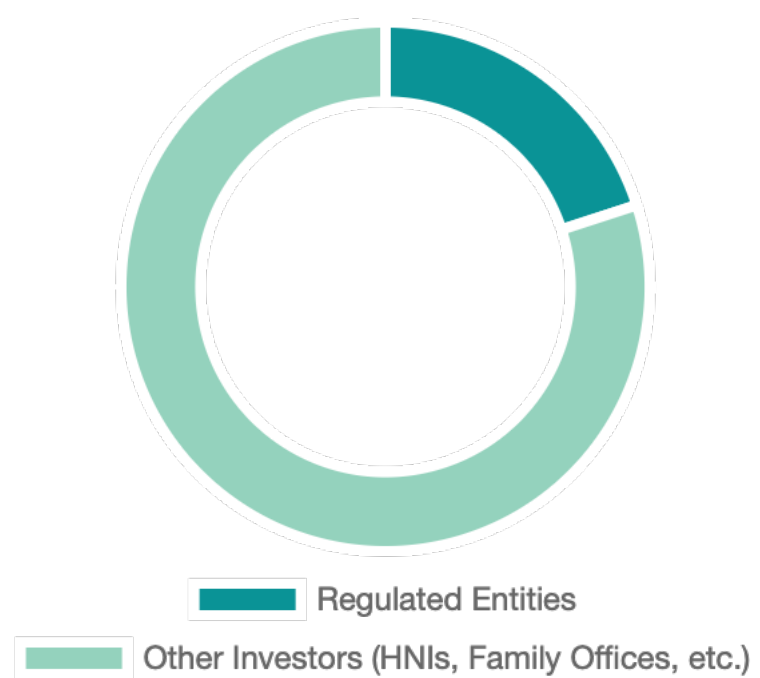
Is the maximum contribution a single Regulated Entity can make to an AIF's corpus.

### Collective RE Limit

20%

Is the maximum combined contribution all REs can make to a single AIF scheme.

### AIF Corpus Composition



The 20% cap on REs encourages AIFs to diversify their funding by attracting capital from other sources like family offices, HNIs, and foreign investors.

## The Provisioning Rule Explained

The new directions introduce a specific, risk-based provisioning requirement to prevent the 'evergreening' of loans, replacing previous blanket restrictions. This flowchart clarifies the condition.

Does an RE's investment exceed 5% of the AIF's corpus?



Does the AIF have downstream non-equity investment in a company the RE has loaned to?



If YES to both: The RE must make a 100% provision against that specific exposure.

## Who is a Regulated Entity?



The directions apply to a broad range of financial institutions, ensuring wide coverage of the regulatory framework.

## SEBI's Due Diligence for Trust & Compliance

The RBI's comfort in relaxing AIF investment norms stems significantly from SEBI's robust due diligence framework, designed to prevent regulatory arbitrage and foster a transparent AIF ecosystem.

### Key Objectives of SEBI's DD

- ✓ Prevent **Evergreening of Stressed Loans**: Ensuring AIFs are not used by RBI-regulated lenders to mask stressed assets.
- ✓ Curb **QIB/QB Benefit Circumvention**: Preventing ineligible investors from gaining benefits through AIFs.
- ✓ Address **FEMA Norm Violations**: Especially for investments originating from countries sharing land borders with India.

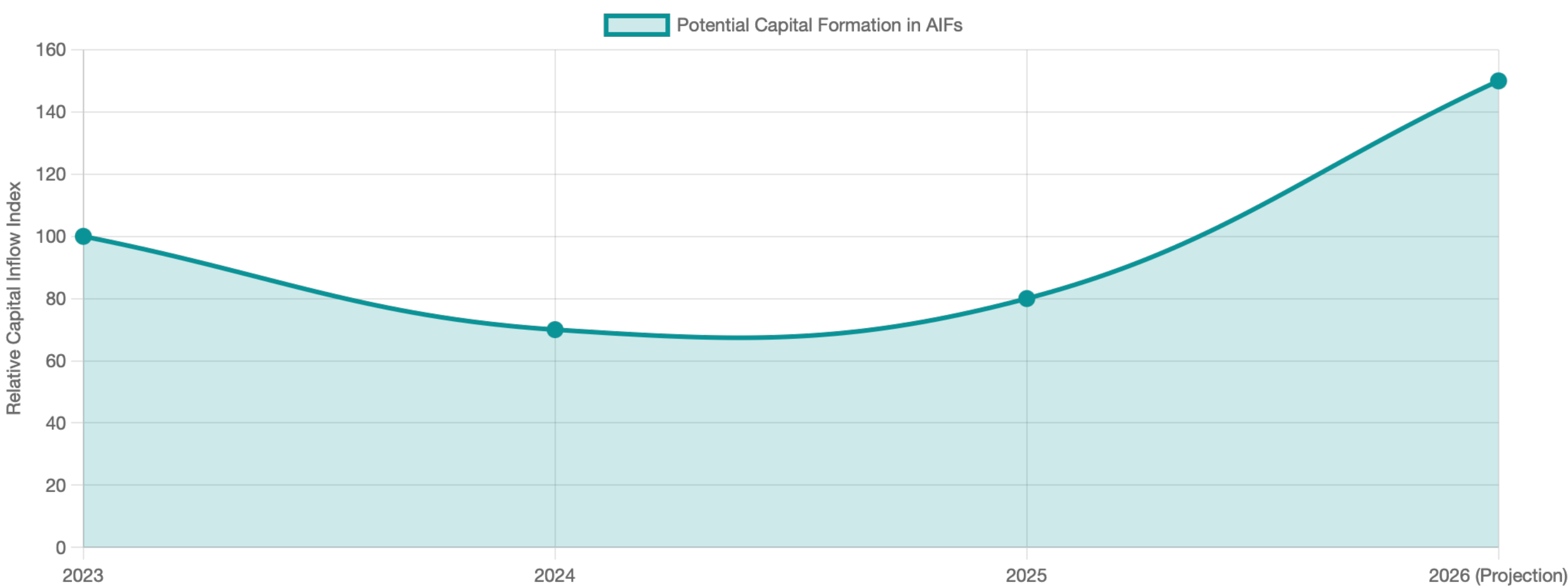
### Core Due Diligence Requirements

- **Mandatory Checks (Oct 8, 2024)**: AIFs, their managers, and KMPs must conduct specific and ongoing due diligence on investors and investments (SEBI Circular, Oct 8, 2024).
- **RBI-Regulated Investors**: Special scrutiny for REs investing in AIFs to ensure compliance with RBI's prudential norms (e.g., if REs contribute ≥25% to corpus).
- **High-Concentration Investors**: Due diligence for investors (or groups) contributing ≥50% of the AIF corpus.
- **Consequences**: Non-compliant proposed investments are either not made, or the investor is excluded. Existing non-compliant investments must be reported.

This comprehensive framework by SEBI provides the foundational assurance to RBI that AIFs will operate within the spirit of financial regulations, thereby enabling the current policy relaxations.

## Projected Impact on Capital Formation

By replacing ambiguity with clear guidelines, the new directions are expected to significantly boost REs' confidence and investment appetite, leading to a surge in capital flowing into the AIF industry.



## A More Robust AIF Ecosystem



### Increased Investment

Clarity on rules will unlock capital previously held back by REs due to regulatory uncertainty.



### Enhanced Governance

AIFs will adopt higher transparency and governance standards to attract RE investments.



### Funding Diversification

The 20% collective cap encourages AIFs to tap into a wider, more global pool of investors.



### Stronger Confidence

A well-regulated environment boosts the confidence of all investor classes in the AIF market.