

Update on RBI Circulars and Investments in AIFs

This communication provides a comprehensive update on the recent developments regarding investments by Regulated Entities (REs) in Alternative Investment Funds (AIFs), highlighting the collaborative engagement between the industry, the IVCA, and the Reserve Bank of India (RBI).

Timeline of Key Events and Circulars

December 19, 2023 Circular

- **Restrictions:** Placed restrictions on REs investing in AIFs that had downstream investments in companies where the RE had an existing loan.
- **Provisioning:** Required REs to either liquidate their investment within 30 days or make a 100% provision on such investments.

March 27, 2024 Circular

- **Clarification:** Clarified that downstream investments in equity shares would be excluded from the restrictions.
- **Provisioning:** Eased the provisioning requirement to a proportionate basis rather than on the entire investment.

May 2025 Guidance

- **Proposed Framework:** Proposed a new framework with tiered investment limits for REs.
- **Investment Limits:** Proposed an individual RE investment limit of 10% and a collective RE investment limit of 15% of the AIF's corpus.
- **Consultative Approach:** The circular was issued as a draft to solicit feedback from stakeholders.

July 29, 2025 Circular

- **Revised Limits:** Finalized the individual RE investment limit at 10% and increased the collective RE investment limit to 20% of the AIF's corpus.
- **Replaced Ban:** Replaced the outright ban on certain investments with a flexible, limit-based regime.
- **Broader Exclusion:** Broadened the exclusion to include not just equity shares, but also other equity instruments like Compulsorily Convertible Preference Shares (CCPS) and Debentures (CCDs) from the provisioning rules.

Critical Clarifications

Transitional Provisions (Clause 7)

- **Prior Commitments:** If a commitment was made before the July 29, 2025 circular and only partially drawn down, REs have the choice to follow either the earlier or the latest circular.
- **Fully Drawn-down Commitments:** If a prior commitment has been fully drawn down, REs must follow the directives of the December 19, 2023, and March 27, 2024 circulars.

Other Aspects

- **Strategic Funds:** The RBI is working with the government to identify specific strategic funds that will be exempted. Updates will be shared as they become available.
- **Approval for Investments:** For AIFs sponsored by REs, the REs can approach the RBI for approval to invest above the 10% limit.