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ALTERNATIVE INVESTMENT FUND

RBI ISSUES DIRECTIONS FOR REGULATED ENTITIES ON INVESTMENTS IN AIF

Reserve Bank of India ("**RBI**"), *vide* its notification dated July 29, 2025, has issued RBI (Investment in AIF) Directions, 2025 ("**AIF Directions**"). These directions outline the regulatory guidelines governing investments by Regulated Entities ("**RE**") in an Alternative Investment Funds ("**AIF**"). Additionally, it mandates the RE to ensure that their investment policies include appropriate provisions for investments in AIF schemes, in compliance with applicable laws and regulations. It shall come into effect from January 1, 2026, or an earlier date as determined by the RE in accordance with its internal policy.

The key highlights of the AIF Directions include:

Applicability: The AIF Directions apply to the RE, including commercial banks (such as small finance banks, local area banks, and regional rural banks), co-operative banks (comprising primary urban, state, and central co-operative banks), all-India financial institutions, and non-banking financial companies, including housing finance companies.

Definitions: The AIF Directions define term such as 'debtor company' of RE which means any company to which the RE currently has or previously had a loan or investment exposure (excluding equity instruments) anytime during the preceding twelve months and 'equity instrument' which means and include equity shares, compulsorily convertible preference shares and compulsorily convertible debentures.

Investment Limits:

No individual RE shall contribute more than 10% of the corpus of an AIF scheme; and

The total contribution by all RE combined is capped at 20% of the corpus of an AIF scheme.

Provisioning Requirements:

If a RE invests more than 5% in an AIF scheme that has downstream (excluding equity instruments) in its debtor company, it must make a 100% provision for its proportionate investment, limited to its direct loan or investment exposure to that debtor.

Additionally, if the investment is made in the form of subordinated units, the RE must fully deduct the amount from its capital funds, proportionately from both Tier-1 and Tier-2 capital, as applicable.

Exemptions:

Outstanding investments or commitments made by a RE with prior approval of RBI under the relevant provisions are excluded from the 10% and 20% investment cap.

The RBI, in consultation with the Government of India, may exempt specific AIFs from the scope of both the Existing Circulars (*defined hereinafter*) and AIF Directions, except for the requirement mandating the RE to have an appropriate investment policy in place.

Repealed circulars:

The RBI circulars on investments in AIF dated December 19, 2023, and March 27, 2024, ("**Existing Circular**") shall stand repealed from the effective date of the AIF Directions. Any new commitments made by a RE after this date must comply with the AIF Directions.

However, investments where commitments were fully honoured before the issuance of the AIF Directions will continue to be governed by the Existing Circulars. Furthermore, for ongoing investments or commitments made before the effective date, RE may choose to follow either the Existing Circulars or the AIF Directions in its entirety.

To read the direction click here

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