

CORPORATE CONNECT

SEBI ALLOWS AIFS TO RETAIN LIQUIDATION PROCEEDS POST COMPLETION OF THEIR TENURE

Securities and Exchange Board of India (“SEBI”), in its 213th board meeting dated March 23, 2026, has approved regulatory amendments aimed at enhancing ease of doing business while improving governance standards. In relation to Alternative Investment Funds (“AIFs”), SEBI has approved the proposal to amend SEBI (Alternative Investment Funds) Regulations, 2012 (“AIF Regulations”) to allow AIFs to retain liquidation proceeds of the portfolio post completion of their tenure.

Under the current regulatory framework, AIFs are required to distribute the liquidation proceeds to investors within the AIF's permissible tenure and must achieve a nil bank account balance to surrender their certificate of registration. However, SEBI has observed that certain AIFs are unable to satisfy this requirement on account of pending or anticipated tax or litigation demands. In such cases, AIFs are constrained to continue to hold their registration and comply with all the regulatory obligations applicable to active AIFs, despite having ceased fund management activities.

To address this issue, SEBI allowed the AIFs to retain funds beyond the tenure of the AIF on the following grounds:

- (a) Demonstrable receipt of a litigation notice or tax/regulatory demand (including show-cause notices, re-

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assessment notices, or similar official written communications);

- (b) Consent of at least 75% of investors by value, for satisfying anticipated liabilities from litigation or tax demand; or
- (c) Substantiation of amounts retained for operational expenses through invoices or prior-year comparable, subject to a maximum retention period of 3 years from the end of the permissible fund life.

Further, the AIFs that intend to surrender their registration while having one or more schemes retaining funds in accordance with the conditions specified above shall be tagged as 'inoperative funds'. The regulatory compliance applicable to such inoperative funds shall be proportionately reduced compared to active AIFs, including discontinuation of periodic filings, Private Placement Memorandum update and performance benchmarking.

These measures shall be implemented upon the amendments in the AIF Regulation, in line with the aforesaid decision taken.

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