



Annex II

Directions on Investments in Alternative Investment Funds (AIFs)
(as contained in circulars dated December 19, 2023 and March 27, 2024 which otherwise stand repealed as on the effective date in terms of Para 18 of these Directions)
(refer paragraphs 17, 18 and 19 of these Directions)

1. In order to address concerns relating to possible evergreening through this route, it is advised as under:

- (1) An AIFI shall not make investments in any scheme of AIFs which has downstream investments either directly or indirectly in a debtor company of the AIFI.

Note: Downstream investments shall exclude investments in equity shares of the debtor company of the AIFI, but shall include all other investments, including investment in hybrid instruments.

Explanation: The debtor company of the AIFI, for this purpose, shall mean any company to which the AIFI currently has or previously had a loan or investment exposure anytime during the preceding 12 months.

- (2) If an AIF scheme, in which an AIFI is already an investor, makes a downstream investment in any such debtor company, then the AIFI shall liquidate its investment in the scheme within 30 days from the date of such downstream investment by the AIF. If the AIFI has already invested into such schemes having downstream investment in their debtor companies as on date i.e., December 19, 2023, the 30-day period for liquidation shall be counted from December 19, 2023. The AIFI shall forthwith arrange to advise the AIFs suitably in the matter.
- (3) In case an AIFI is not able to liquidate their investments within the above-prescribed time limit, it shall make 100 percent provision on such investments.

Note: Provisioning shall be required only to the extent of investment by the AIFI in the AIF scheme which is further invested by the AIF in the debtor company, and not on the entire investment of the AIFI in the AIF scheme.



2. In addition, investment by an AIFI in the subordinated units of any AIF scheme with a 'priority distribution model' shall be subject to full deduction from the AIFI's capital funds. Herein,

- (1) the proposed deduction from capital shall take place equally from both Tier-1 and Tier-2 capital.
- (2) reference to investment in subordinated units of AIF Scheme includes all forms of subordinated exposures, including investment in the nature of sponsor units.

Note: Paragraph 2 shall only be applicable in cases where the AIF does not have any downstream investment in a debtor company of the AIFI. If the AIFI has investment in subordinated units of an AIF scheme, which also has downstream exposure to the debtor company, then the AIFI shall be required to comply with paragraph 1 of this Annex.

Explanation: 'Priority distribution model' shall have the same meaning as specified in the SEBI circular SEBI/HO/AFD-1/PoD/P/CIR/2022/157 dated November 23, 2022.

3. Investments by an AIFI in AIFs through intermediaries such as fund of funds or mutual funds are not included in the scope of these instructions contained in this Annex.