

Funding Options

Alternative Investment Funds

1. What does Alternative Investment Funds stand for?

Alternative Investment Fund or AIF means any fund established or incorporated in India which is a privately pooled investment vehicle which collects funds from sophisticated investors, whether Indian or foreign, for investing it in accordance with a defined investment policy for the benefit of its investors. For more information, [click here](#).

2. Can Venture Capital Funds registered under the repealed SEBI (Venture Capital Funds) Regulations, 1996 seek re-registration under SEBI (AIF) Regulations?

Venture Capital Funds (VCFs) registered under the repealed SEBI (Venture Capital Funds) Regulations, 1996 ("VCF Regulations") may seek reregistration under SEBI (Alternative Investment Funds) Regulations, 2012 subject to approval of two-third of their investors by value of their investment. As against other applications for registration as Category I- VCFs who have to pay INR 5 lakhs as registration fees, VCFs registered under the VCF Regulations are required to pay INR 1 lakh only as re-registration fees. Please refer to section 3(2) and second schedule of SEBI (Alternative Investment Funds) Regulations, 2012 at [link](#) for more information.

3. What is the limit specified under AIF regulations for number of investors?

No scheme of an AIF (other than angel fund) shall have more than 1000 investors. (Please note that the provisions of the Companies Act, 1956 shall apply to the AIF if it is formed as a company). In case of an angel fund, no scheme shall have more than two hundred angel investors. However, an AIF cannot make invitation to the public at large to subscribe its units and can raise funds from the sophisticated investors only through private placement. Please refer to section 4(b), 10(f) and 19E(4) of SEBI (Alternative Investment Funds) Regulations, 2012 at the [link](#) for more information

4. In which legal forms can an AIF be set up?

An AIF under the SEBI (Alternative Investment Funds) Regulations, 2012 can be established or incorporated in the form of a trust or a company or a limited liability partnership or a body corporate. Most of the AIFs registered with SEBI are in trust form. Please refer to section 2(1)(b) of SEBI (Alternative Investment Funds) Regulations, 2012 at link for more information.

5. What is Fund of Funds?

Fund of Funds, in general parlance as gathered from publicly available sources is an investment strategy of holding a portfolio of other investment funds rather than investing directly in stocks, bonds or other securities. In the context of AIFs, a Fund of Fund is an AIF which invest in another AIF. Please refer to link for more information.

6. What is 'debt fund'?

Debt fund is an Alternative Investment Fund (AIF) which invests primarily in debt or debt securities of listed or unlisted investee companies according to the stated objectives of the Fund. These funds are registered under Category II. In this regard, it is clarified that, since Alternative Investment Fund is a privately pooled investment vehicle, the amount contributed by the investors shall not be utilised for purpose of giving loans. Please refer to section 2(1)(i) of SEBI (Alternative Investment Funds) Regulations, 2012 at link for more information.

7. What is the meaning of Angel Fund?

"Angel Fund" is a sub-category of Venture Capital Fund under Category I Alternative Investment Fund that raises funds from angel investors and invests in accordance with the provisions of AIF Regulations. For more information, click here.

8. What are Category III AIFs?

AIFs which employ diverse or complex trading strategies and may employ leverage including through investment in listed or unlisted derivatives. Various types of funds such as hedge funds, PIPE Funds, etc. are registered as Category III AIFs. Please refer to section 3(4)(c) of SEBI (Alternative Investment Funds) Regulations, 2012 at link for more information.

9. What are Category II AIFs?

AIFs which do not fall in Category I and III and which do not undertake leverage or borrowing other than to meet day-to-day operational requirements and as permitted in the SEBI (Alternative Investment Funds) Regulations, 2012. Various types of funds such as real estate funds, private equity funds (PE funds), funds for distressed assets, etc. are registered as Category II AIFs. Please refer to section 3(4)(b) of SEBI (Alternative Investment Funds) Regulations, 2012 at link for more information.

10. What are Category I AIFs?

AIFs which invest in start-up or early stage ventures or social ventures or SMEs or infrastructure or other sectors or areas which the government or regulators consider as socially or economically desirable and shall include venture capital funds, SME Funds, social venture funds, infrastructure funds and such other Alternative Investment Funds as may be specified. Please refer to section 3(4)(a) of SEBI (Alternative Investment Funds) Regulations, 2012 at link for more information.

11. In what categories can an applicant seek registration as an AIF?

Applicants can seek registration as an AIF in one of the following categories, and in sub-categories thereof, as may be applicable: [Ref. Regulation 3(4)] a) Category I AIF: o Venture capital funds (Including Angel Funds) o SME Funds o Social Venture Funds o Infrastructure funds b) Category II AIF c) Category III AIF. Please refer to section 3(4) of SEBI (Alternative Investment Funds) Regulations, 2012 at the link for more information.

12. How can the investors redress their complaints against AIFs?

SEBI has a web based centralized grievance redress system called SEBI Complaint Redress System (SCORES) at <http://scores.gov.in> where investors can lodge their complaints against AIFs. Further, in terms of the AIF Regulations, for dispute resolution, the AIF by itself or through the Manager or Sponsor, is required to lay down procedure for resolution of disputes between the investors, AIF, Manager or Sponsor through arbitration or any such mechanism as mutually decided between the investors and the AIF.

13. What is the registration fee to be paid by an AIF?

Registration fee to be paid by an AIF is as under: Category I Alternative Investment Funds - INR

5,00,000 Category II Alternative Investment Funds - INR 10,00,000 Category III Alternative Investment Funds - INR 15,00,000 Angel Funds - INR 2,00,000 Please refer to second schedule of SEBI (Alternative Investment Funds) Regulations, 2012 at the link for more information

14. What is the procedure of obtaining registration as an AIF from SEBI?

The applicant shall make an application in Form A as provided in the SEBI (Alternative Investment Funds) Regulations, 2012 along with necessary supporting documents. Application fees of INR 1,00,000/- must be paid along with the application to SEBI. On receipt of approval from SEBI, Registration/re registration fee /scheme fee as applicable, may be paid. The application in Form A shall be submitted to the below mentioned address: Investment Management Department Division of Funds- 1 Securities and Exchange Board of India SEBI Bhavan, 3rd Floor A Wing, Plot No. C4-A, 'G' Block, Bandra-Kurla Complex, Bandra (E), Mumbai - 400 051. Please refer to section 3(5) and second schedule of SEBI (Alternative Investment Funds) Regulations, 2012 at the link for more information.

15. Whether an AIF can accept investments from joint investors?

An AIF may accept the following as joint investors for the purpose of investment of not less than INR one crore: i. an investor and his/her spouse ii. an investor and his/her parent iii. an investor and his/her daughter/son With respect to the above investors, not more than 2 persons shall act as joint-investors in an AIF. In case of any other investors acting as joint investors, for every investor, the minimum investment amount of INR one crore shall apply. Joint investors shall mean where each of the investor contributes towards the AIF. Please refer to circular no. CIR/IMD/DF/14/2014 dated June 19, 2014 at the link for more information.

16. What are the reporting requirements to SEBI for AIFs registered with SEBI?

As per circular No.CIR/IMD/DF/10/2013 dated 29th July, 2013, Category I and II AIFs and the Category III AIFs which do not undertake leverage are required to submit report to SEBI on a quarterly basis while Category III AIFs which undertake leverage are required to submit the reports on a monthly basis. The formats for such reports are provided as a part of the said circular. All AIFs shall submit the report irrespective of whether or not the AIF has started activity. Currently, all AIFs shall send reports to SEBI by email to aifreporting@sebi.gov.in. No physical reports are required to be filed with SEBI. The reports are required to be submitted within 7 calendar days from the end of quarter/ end of month as the case maybe. Please refer to circular No.CIR/IMD/DF/10/2013 dated 29th July, 2013 at the link for more information

17. What are the investment conditions for AIFs?

The AIF Regulations provide for certain general investment conditions applicable to all AIFs as well as specific investment conditions applicable to the specific category/sub-category thereof. For the investment conditions, one may refer to Chapter III and III- A of the AIF Regulations at the link.

18. Can an AIF launch schemes?

Yes. An AIF may launch schemes subject to filing of placement memorandum with SEBI. Further, it may be noted that prior to launch of scheme, an AIF is required to pay INR 1 lakh as scheme fees to SEBI while filing the placement memorandum. Such fee shall be paid at least 30 days prior to launch of scheme. However, payment of scheme fees shall not apply in case of launch of first scheme by the AIF (other than angel fund) and to angel funds. Please refer to section 12 and second schedule of SEBI (Alternative Investment Funds) Regulations, 2012 at the link for more information.

19. What is the validity of the certificate of registration of an AIF?

The certificate of registration of an AIF shall be valid till the AIF is wound up. Please refer to section 3(7) of SEBI (Alternative Investment Funds) Regulations, 2012 at link for more information.

20. Is an AIF permitted to make an invitation to the public to subscribe to its securities?

No. AIFs are privately pooled investment vehicles. AIFs shall raise funds through private placement by issue of information memorandum or placement memorandum, by whatever name called. As an eligibility criterion for registration as an AIF, the applicant is required to be prohibited by its memorandum and articles of association/ trust deed/ partnership deed from making an invitation or solicitation to the public to subscribe to its securities. Please refer to section 4(b) of SEBI (Alternative Investment Funds) Regulations, 2012 at the link for more information.

21. Can an AIF launch a fund/ scheme of any size?

No. Each scheme of the Alternative Investment Fund (other than angel fund) shall have corpus of at least INR twenty crore. In case of an angel fund, it shall have a corpus of at least INR ten crore. Please refer to section 10(b) and 19(d) of SEBI (Alternative Investment Funds) Regulations, 2012 at the link for more information.

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22. Can an AIF raise any amount of funds from any investor?

An AIF may raise funds from any sophisticated investor whether Indian, foreign or non-resident Indians, who inter alia undertake risk of investing in primarily unlisted or illiquid securities. However, AIF (other than angel fund) shall not accept from an investor, an investment of value less than INR one crore. In case of investors who are employees or directors of the AIF or employees or directors of the Manager, the minimum value of investment shall be INR twenty five lakh. Please refer to section 10(a) to 10(c) of SEBI (Alternative Investment Funds) Regulations, 2012 at link.

23. Is the sponsor/management mandated to have an interest in AIF?

In order to ensure that the interest of the Manager/Sponsor is aligned with the interest of the investors in the AIF, the AIF Regulations require that the sponsor/manager shall have a certain continuing interest in the AIF which shall not be through the waiver of management fees. For Category I and II AIFs, such interest must be not less than two and half percent of the corpus or INR five crore, whichever is lesser and for Category III AIFs, the interest must be not less than five percent of the corpus or INR ten crore, whichever is lesser. For angel funds, such interest shall be not less than two and half percent of the corpus or INR fifty lakh, whichever is lesser. Please refer to section 10(d) and 19(G)(2) of SEBI (Alternative Investment Funds) Regulations, 2012 at the link for more information.

24. What is an Angel Investor?

"Angel investor" means any person who proposes to invest in an angel fund and satisfies one of the following conditions, namely, Net tangible assets of at least INR 2 cr excluding value of his principal residence, and who: has early stage investment experience, or has experience as a serial entrepreneur, or is a senior management professional with at least ten years of experience A body corporate with a net worth of at least INR 10 cr, or An AIF/ VCF registered under these regulations. For more information, click here.