

CIRCULAR

SEBI/HO/IMD/DF6/CIR/P/2020/24

February 05, 2020

All Alternative Investment Funds

Sir/ Madam,

Sub: Disclosure Standards for Alternative Investment Funds (AIFs)

1. As a part of SEBI's initiatives to streamline disclosure standards in the growing AIF space, SEBI through a Consultation Paper dated December 4, 2019 sought public comments on 'Introduction of Performance Benchmarking' and 'Standardization of Private Placement Memorandum (PPM) for AIFs'. Considering inputs from public consultation and deliberations in Alternative Investment Policy Advisory Committee (AIPAC), it has been decided to introduce template(s) for PPM, subject to certain exemptions, and mandatory performance benchmarking for AIFs with provisions for additional customized performance reporting.

A. Template(s) for PPM

2. PPM is a primary document in which all the necessary information about the AIF is disclosed to prospective investors. To ensure that a minimum standard of disclosure is made available in the PPM, it has been decided to mandate a template for the PPM providing certain minimum level of information in a simple and comparable format. AIFs are also permitted to provide additional information in their PPM.
3. Thus, the template for PPM shall have two parts *viz.*

Part A – section for minimum disclosures, and
Part B – supplementary section to allow full flexibility to the Fund in order to provide any additional information, which it deems fit.
4. The template for PPM of AIFs raising funds under Category I and Category II is provided at [Annexure 1](#). The template for PPM of AIFs raising funds under Category III is provided at [Annexure 2](#).
5. Further, in order to ensure compliance with the terms of PPM, it will be mandatory for AIFs to carry out an annual audit of such compliance. The audit shall be carried out by either internal or external auditor/legal professional. However, audit of sections of PPM relating to 'Risk Factors', 'Legal, Regulatory and Tax Considerations' and 'Track Record of First Time Managers' shall be optional.

6. The findings of the audit, along with corrective steps, if any, shall be communicated to the Trustee or Board or Designated Partners of the AIF, Board of the Manager and SEBI.
7. The terms of contribution or subscription agreement (by any name as it may be called), shall be aligned with the terms of the PPM and shall not go beyond the terms of the PPM.
8. The requirements as mentioned at para no. 2 and 5 above shall not apply to the following:
 - (i) Angel Funds as defined in SEBI (Alternative Investment Funds), Regulations 2012.
 - (ii) AIFs/Schemes in which each investor commits to a minimum capital contribution of INR 70 crores (USD 10 million or equivalent, in case of capital commitment in non-INR currency) and also provides a waiver to the fund from the requirement of PPM in the SEBI prescribed template and annual audit of terms of PPM, in the manner provided at [Annexure 3](#).
9. The aforesaid requirements shall come into effect from March 01, 2020.

B. Performance Benchmarking of AIFs

10. Based on the request of the industry, it was considered appropriate that an industry benchmark be developed to compare the performance of AIF industry against other investment avenues, as also global investment opportunities. Accordingly, a proposal for performance benchmarking of AIFs was incorporated in the aforementioned Consultation Paper.
11. As the industry needs the flexibility to showcase its performance based on different criteria and benchmarking of performance of AIFs will help investors in assessing the performance of the AIF industry, it is decided to introduce:
 - a. Mandatory benchmarking of the performance of AIFs (including Venture Capital Funds) and the AIF industry.
 - b. A framework for facilitating the use of data collected by Benchmarking Agencies to provide customized performance reports
12. In this regard, the following is mandated:
 - (i) Any association of AIFs (“Association”), which in terms of membership, represent at least 51% of the number of AIFs, may notify one or more Benchmarking Agencies, with whom each AIF shall enter into an agreement for carrying out the benchmarking process.

- (ii) The agreement between the Benchmarking Agencies and AIFs shall cover the mode and manner of data reporting, specific data that needs to be reported, terms including confidentiality in the manner in which the data received by the Benchmarking Agencies may be used, etc.
- (iii) AIFs, for all their schemes which have completed at least one year from the date of 'First Close', shall report all the necessary information including scheme-wise valuation and cash flow data to the Benchmarking Agencies in a timely manner.
- (iv) The form and format of reporting shall be mutually decided by the Association and the Benchmarking Agencies.
- (v) If an applicant claims a track-record on the basis of India performance of funds incorporated overseas, it shall also provide the data of the investments of the said funds in Indian companies to the Benchmarking Agencies, when they seek registration as AIF.
- (vi) In the PPM, as well as in any marketing or promotional or other material, where past performance of the AIF is mentioned, the performance versus benchmark report provided by the benchmarking agencies for such AIF/Scheme shall also be provided.
- (vii) In any reporting to the existing investors, if performance of the AIF/Scheme is compared to any benchmark, a copy of the performance versus benchmark report provided by the Benchmarking Agency shall also be provided for such AIF/scheme.
- (viii) As a first step, Association will appoint Benchmarking Agencies and thereafter will set timeline for reporting of requisite data to Benchmarking Agencies by all the registered AIFs. In this regard, Association and Benchmarking Agencies will ensure that the first industry benchmark and AIF level performance versus Benchmark Reports are available latest by July 01, 2020, for the performance upto September 30, 2019. Further the Association shall submit a progress report in this regard to SEBI on a monthly basis till the creation of first industry benchmark.

13. The operational guidelines for performance benchmarking are provided at [Annexure 4](#).

14. In addition to the standard benchmark report prepared by the Benchmarking Agencies, if any AIF seeks customized performance reports in a particular manner, the same may be generated by the Benchmarking Agencies, subject to:

- (i) Consent of the AIFs, whose data needs to be considered for generation of the customized performance report.

(ii) Terms and conditions, including fees, decided mutually between the Benchmarking Agencies and the AIF.

15. The requirements as mentioned at para no. 11 to 14 above shall not apply to Angel Funds registered under sub-category of Venture Capital Fund under Category I - AIF.

16. This circular is issued in exercise of powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

17. The circular is available on SEBI website at www.sebi.gov.in under the categories "Legal framework - Circulars" and "Info for - Alternative Investment Funds".

Yours faithfully,

Sanjay Singh Bhati
Deputy General Manager
Tel no.: +91-22-26449222
ssbhati@sebi.gov.in