



CIRCULAR

SEBI/HO/AFD-1/PoD/P/CIR/2022/157

November 23, 2022

To,

All Alternative Investment Funds (AIFs)

Sir/Madam,

Sub: Schemes of AIFs which have adopted priority in distribution among investors

1. As per SEBI (Alternative Investment Funds) Regulations, 2012 ('AIF Regulations'), "Alternative Investment Fund" is a privately pooled investment vehicle, which collects funds from investors, for investing it in accordance with a defined investment policy for the benefit of its investors.
2. As per clause 3(c) of SEBI circular no. CIR/IMD/DF/14/2014 dated June 19, 2014, with respect to investment by the sponsor/manager in the AIF, the sharing of loss by the sponsor/manager shall not be less than pro rata to their holding in the AIF *vis-à-vis* other unit holders.
3. While it has not been explicitly restricted in AIF Regulations that the sharing of loss by a class of investors shall not be less than pro rata to their holding in the AIF *vis-à-vis* other classes of investors/unit holders, it has been brought to SEBI's attention that certain schemes of AIFs have adopted a distribution waterfall in such a way that one class of investors (other than sponsor/manager) share loss more than pro rata to their holding in the AIF *vis-à-vis* other classes of investors/unit holders, since the later has priority in distribution over former ('**priority distribution model**').
4. The aforesaid matter is being examined by SEBI in consultation with Alternative Investment Policy Advisory Committee, AIF industry associations and other stakeholders. Meanwhile, it has been decided that schemes of AIFs which have adopted aforesaid priority distribution model, shall not accept any fresh commitment or make investment in a new investee company, till a view is taken by SEBI in this regard.
5. This circular shall come into force with immediate effect.
6. This circular is issued with the approval of the competent authority.
7. 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.



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

8. 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,

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