



CAPITAL MARKETS

N. A. SHAH BULLETIN

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Alternative Investment Funds - Disclosure Standards for PPM and Performance Benchmarking

Disclosure standards for Private Placement Memorandum

A Private Placement Memorandum ('PPM') is the primary offer document of an Alternative Investment Fund ('AIF') disseminating necessary information to prospective investors. For the purpose of streamlining the disclosures in the PPM the SEBI has introduced a template to provide for disclosure of certain minimum information. The template is divided in 2 parts as under:

- Part A: Minimum required disclosures; and
- Part B: Any other additional information

For the purpose of ensuring compliance with the terms of PPM, the AIF to carry out an annual audit either by internal or external auditor.

The PPM and the audit requirements have been exempted for:

- Angel Funds; and
- AIFs / Schemes in which each investor commits minimum capital contribution of INR 70 crores or equivalent

The above move by SEBI which comes into effect from 1st March 2020, will standardize disclosures and increase simplicity of information to investors and thereby increase investors understanding of the scheme.

Performance benchmarking of AIFs

Based on the industry request for disclosure of AIF returns on investments, there was a need for introduction of a framework for performance benchmarking to be available to investors to ensure transparency and potential misselling.

In regard to the above, SEBI has introduced:

- i. Mandatory performance benchmarking of AIFs (including venture capital funds) and the AIF industry
- ii. Framework to use information collected by benchmarking agencies to provide customised performance reports

The performance benchmarking requirements are as under:

- i. Each AIF shall enter into an agreement with one Benchmarking Agency, notified by an AIF association (i.e. associations wherein at least 51% is represented by AIFs) for carrying out the benchmarking process.
- ii. AIFs which have completed at least 1 year from first round of raising funds are required to report scheme-wise valuation and cash-flow data to the Benchmarking Agencies.
- iii. If an applicant claims a track-record on the basis of Indian 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 an AIF.
- iv. The PPM, any marketing material of an AIF or any reporting to an existing investor by an AIF to disclose performance versus the benchmark report provided by the Benchmarking Agencies for such AIF.
- v. Benchmark report is not mandatory for Angel Funds registered under sub-category of Venture Capital Fund under Category-I AIF.
- vi. Operational guidelines regarding periodicity of benchmarking, intimation to agency in case of change in investment methodology, performance data to be both in INR & USD, customized benchmarking reports on request

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