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BULLETIN

CAPITAL MARKETS BULLETIN – MAY 2023

EXECUTIVE SUMMARY

- SEBI has introduced direct plan for schemes of Alternative Investment Funds (AIFs) and trail model for distribution commission in AIFs
- Guidelines with respect to excluding an investor from an investment of AIFs has been prescribed.

Introduction Of Direct Plan For Schemes And Trail Model For Distribution Commission Of AIFs

- To provide flexibility to investors for investing in AIFs and transparency in expenses and curb mis-selling, following is provided:

  - **Direct Plan for schemes of AIFs**
    - Investors shall have an option of "Direct Plan" Schemes of AIFs, and such plans shall not entail any distribution fee / placement fee.
    - AIFs shall ensure that investors who approach them through any registered intermediary which is separately charging any fee (such as advisory fee or portfolio management fee), are on-boarded via Direct Plan only.

  - **Trail model for distribution commission in AIFs**
    - AIFs shall disclose distribution fee / placement fee, if any, to the investors at the time of on-boarding.
    - Cat-I and Cat-II AIFs may pay:
      a. On upfront basis - Upto 1/3rd of the total distribution fee / placement fee to the distributors
      b. On equal trail basis – Remaining distribution fee / placement fee shall be paid to the distributors over the tenure of the fund.
    - Cat-III AIFs shall charge distribution fee / placement fee, if any, to investors only on equal trail basis i.e. no upfront distribution fee / placement fee shall be charged by Cat-III AIFs directly or indirectly to their investors. Further, any distribution fee / placement fee paid shall be only from the management fee received by the managers of such Cat-III AIFs.

The above provisions shall be applicable from 01st May 2023.

Guidelines with respect to excluding an investor from an investment of AIF

- AIFs may exclude its investors from participating in a particular investment opportunity in the following circumstances:

  - If the investor confirms that its participation in the investment would be violation of an applicable law or regulation; or
  - If the investor, as part of any agreement signed with the AIF disclosed to the manager that, participation in such investment opportunity would be in

contravention with the internal policy of the investor. Manager shall ensure that terms of such agreement with the investors include reporting of any change in the disclosed internal policy, to the AIF, within 15 days of such change.

- Upon satisfaction that the participation of investor would lead to the violation of applicable law or regulation or would result in material adverse effect on the scheme, an AIF may exclude such investor from participating in investment opportunity. The manager shall record the rationale for such exclusion.

- If the investor is also an AIF or any other investment vehicle, such investor may be partially excluded from participation to the extent of the contribution of the said AIF / investment vehicle's underlying investors who indeed are excluded from such investment opportunity. The manager shall record the rationale for such exclusion.

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