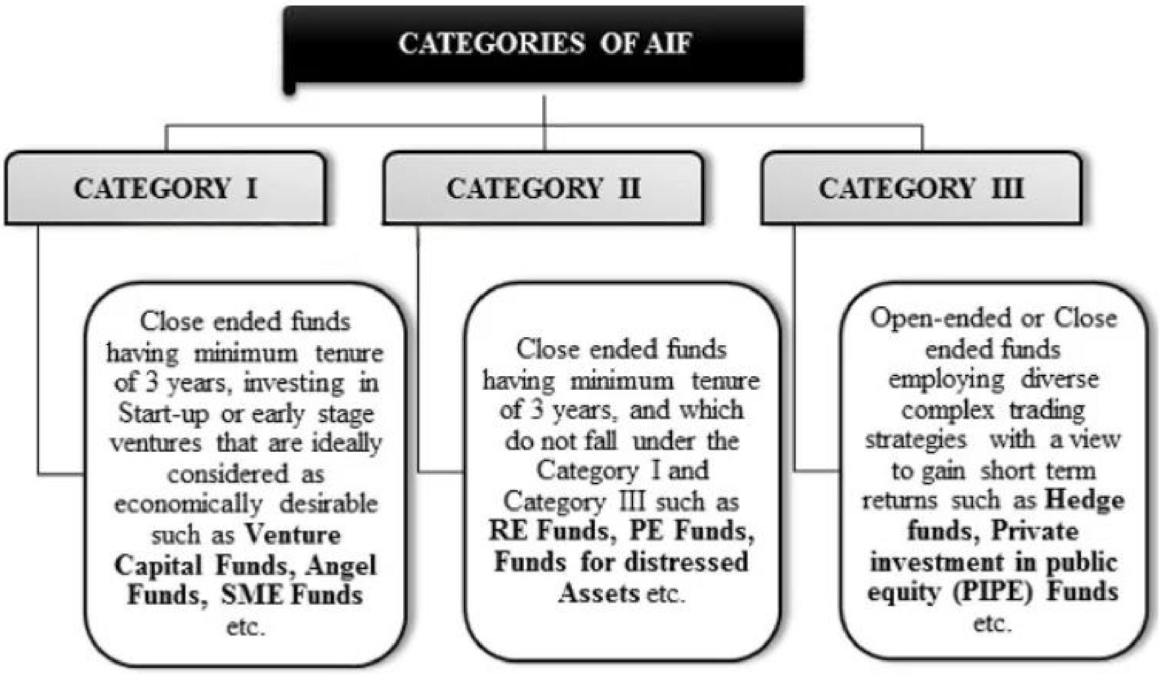
RBI Tightens Investment Norms in AIFs

Source: TH

The **Reserve Bank of India (RBI)** has new norms to limit investment by **regulated entities (REs)** in **Alternative Investment Fund (AIF) schemes** to prevent **evergreening**, reduce concentration risk, and improve financial risk management.

- **Investment Cap:** Total investment by all REs in an AIF scheme is **restricted to 20%** of the corpus. No RE can invest more than 10% of an AIF scheme's corpus.
  - If a RE invests **over 5%** in an AIF that has **downstream exposure to its own debtor (excluding equity)**, then it must set aside the total loan amount of that investment as a safety net.
- **Regulated Entities Covered:** Commercial banks, Regional Rural Banks (RRBs), urban and co-operative banks, all-India financial institutions, and Non-Banking Financial Companies (NBFCs), including housing finance companies.
- **Alignment with SEBI:** The new rules bring RBI norms **in line with Securities and Exchange Board of India (SEBI) standards on due diligence and investment** practices.
- **Alternative Investment Fund:** An AIF is a **privately pooled investment** vehicle in India that collects funds from **sophisticated Indian or foreign investors** to invest as per a defined policy for their benefit.
  - AIFs exclude funds regulated under **SEBI's Mutual Fund** or **Collective Investment Schemes rules 1999.**
    - Exemptions also apply to family trusts, employee welfare/gratuity trusts, and holding companies under the Companies Act, 1956.
- **Categories of AIF:**



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