Association of International Wealth Management of India

INDIAN ASSOCIATION OF ALTERNATIVE INVESTMENT FUNDS

Regulations & Compliance

(Alternative Investment Funds)

Presented by:

R. Leelavathi Naidu

VP – Compliance

Avendus Capital Private Limited

Association of International Wealth Management of India

IAAIF
INDIAN ASSOCIATION OF ALTERNATIVE INVESTMENT FUNDS

Index

1 Fund Structure

2 Principles of Governance for Sponsor and Investment Manager

3 Category of Schemes

4 Compliance and Governance around key activities

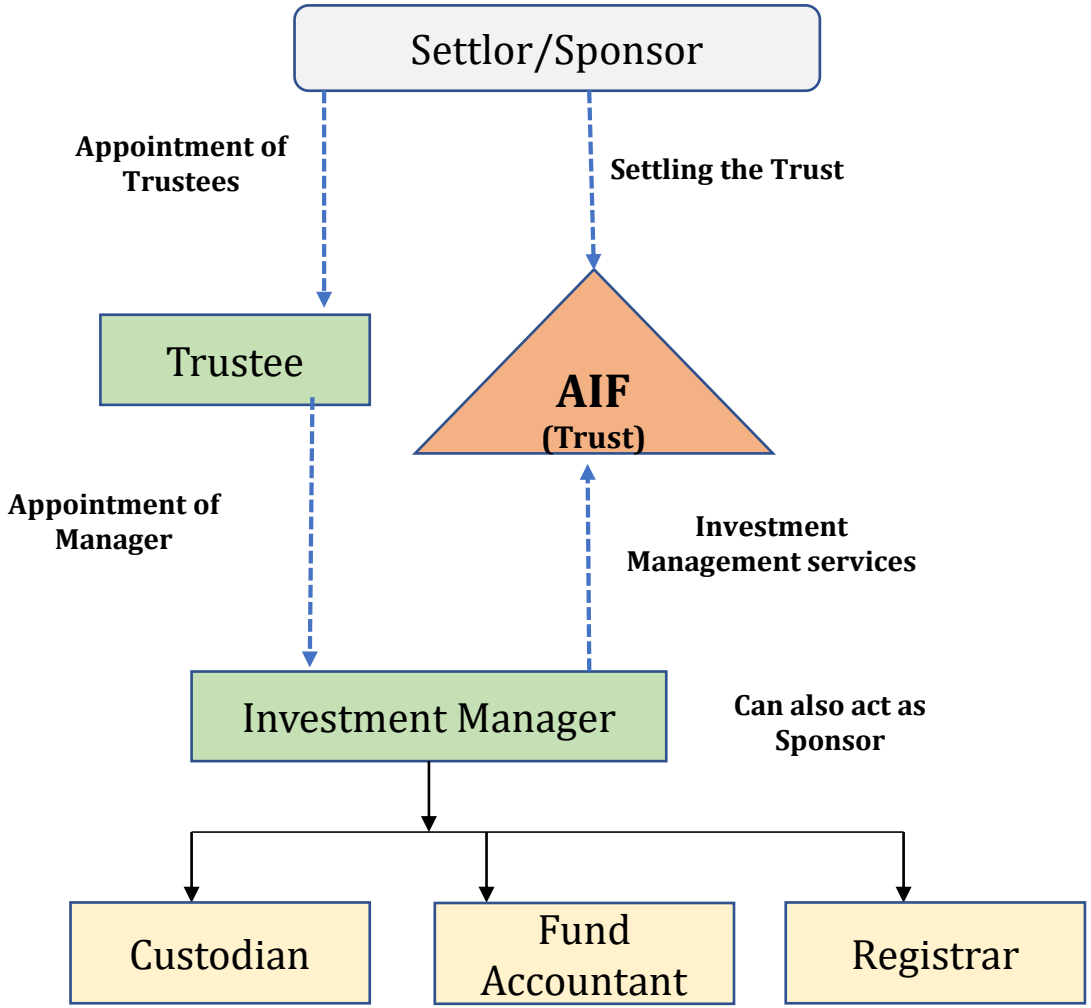
5 Foreign Investment

Structure

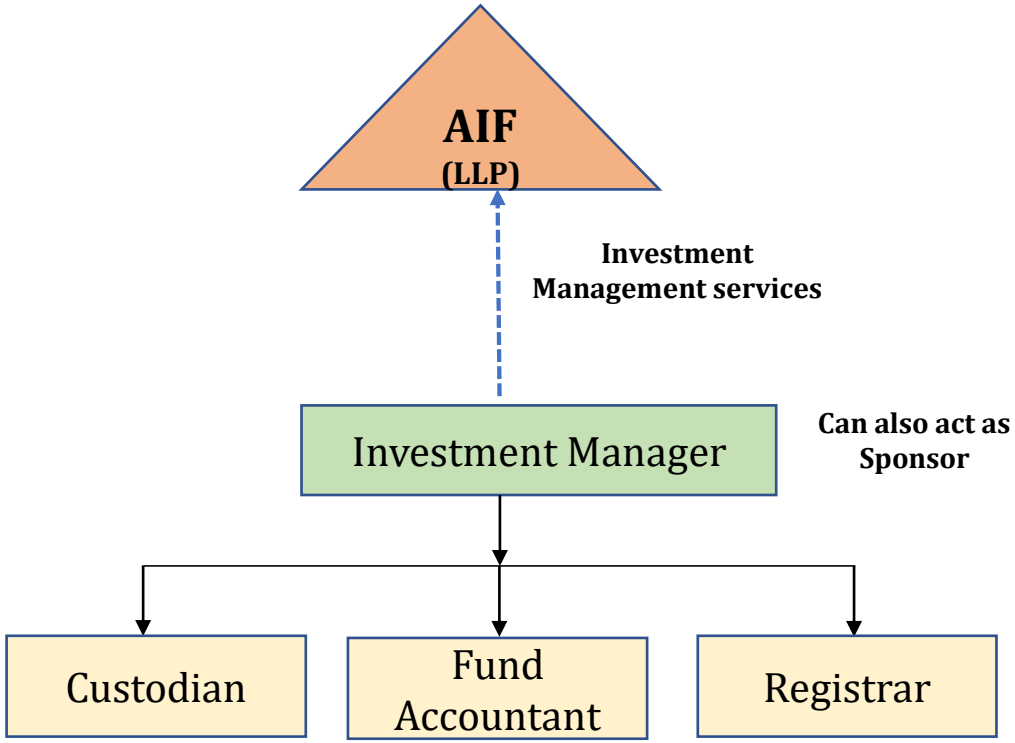
Association of International Wealth Management of India

INDIAN ASSOCIATION OF ALTERNATIVE INVESTMENT FUNDS

Trust



LLP



Association of International Wealth Management of India

INDIAN ASSOCIATION OF ALTERNATIVE INVESTMENT FUNDS

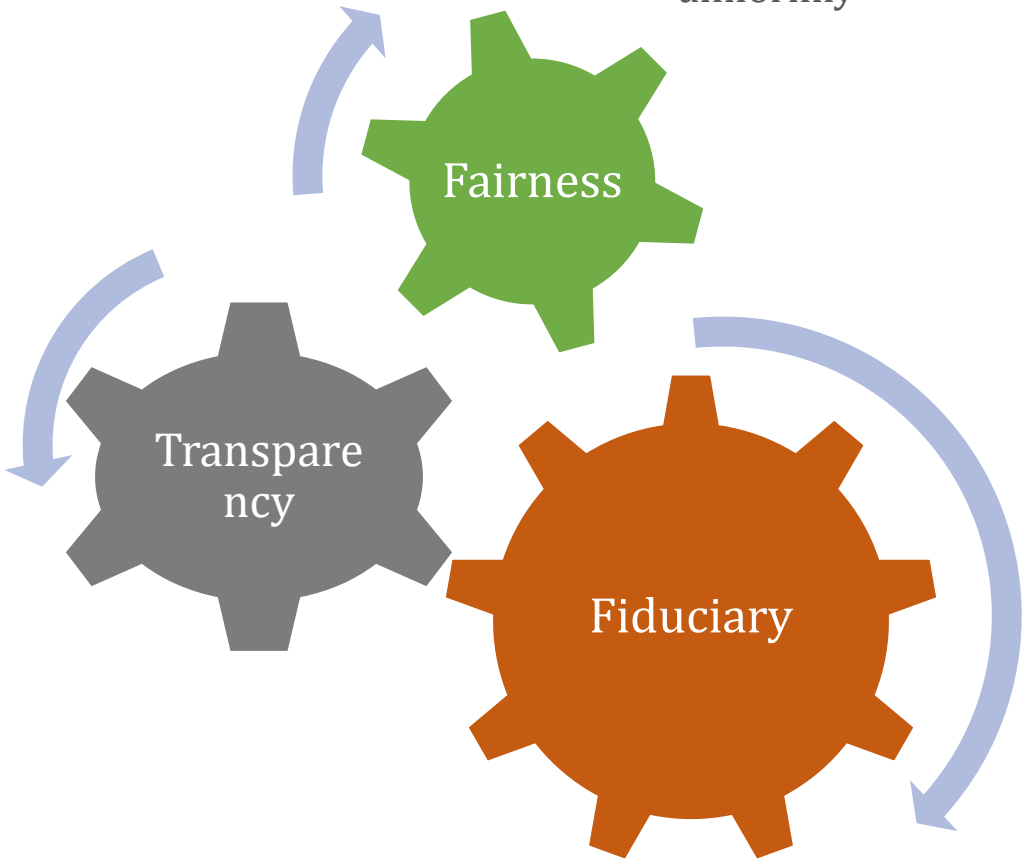
3 Principles of Governance

For Sponsor & Manager

Association of International Wealth Management of India

INDIAN ASSOCIATION OF ALTERNATIVE INVESTMENT FUNDS

All investors are treated uniformly



Follow 3T:

Timely
Transparent
Truthful

Investors interest will always be paramount

Category of Schemes

Association of International Wealth Management of India

INDIAN ASSOCIATION OF ALTERNATIVE INVESTMENT FUNDS

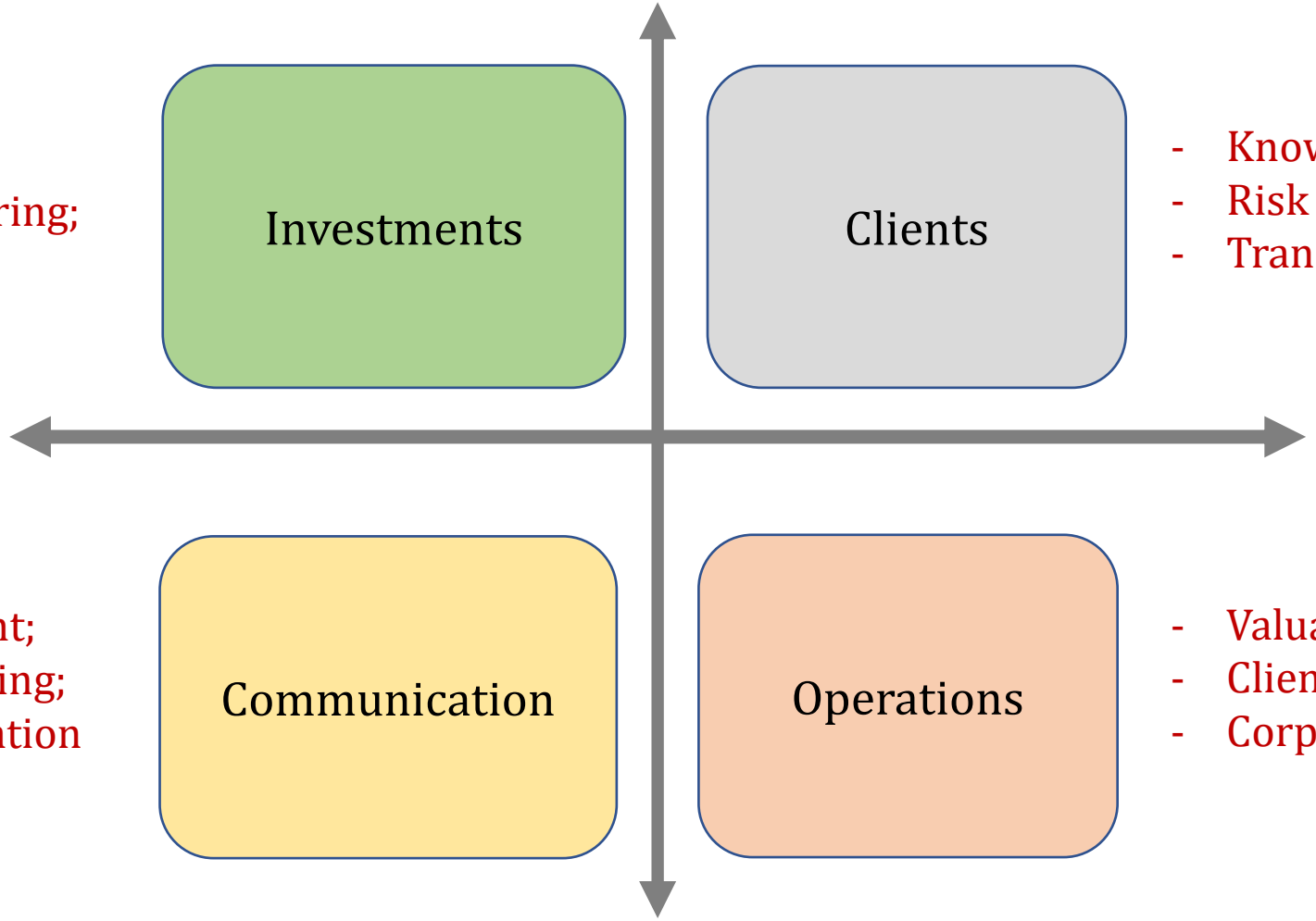
	Category I	Category II	Category III
What it means?	Venture capital funds, SME Funds, social venture funds, infrastructure funds	Which do not fall in Category I & II and does not undertake borrowing or leverage	Complex and diverse trading strategies and engaged in leverage
Tenure	Close ended; Minimum 3 years	Close ended; Minimum 3 years	Open ended or close ended
Borrowing	No. only for temporary funding	No. only for temporary funding	Yes – upto 2 times of NAV
Investment Limit	i)25% single issuer ii) Investment in unlisted as per category	i) 25% single issuer ii) Primarily Investing in unlisted securities	10% single issuer
AIF investment	Category I AIF	Category I & II AIF	Category I & II AIF

Compliance & Governance around key activities

Association of International Wealth Management of India

INDIAN ASSOCIATION OF ALTERNATIVE INVESTMENT FUNDS

- Research;
- Limit Monitoring;
- Oversight



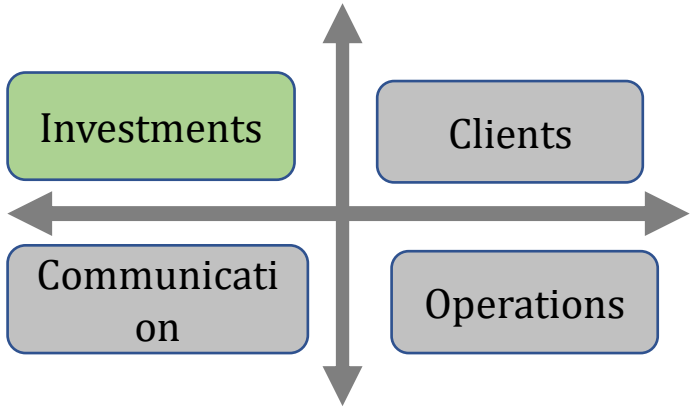
- Know Your Customer;
- Risk Categorization;
- Transaction Monitoring

- Advertisement;
- Client Reporting;
- PPM Modification

- Valuations;
- Client Contribution;
- Corpus

Association of International Wealth Management of India

INDIAN ASSOCIATION OF ALTERNATIVE INVESTMENT FUNDS



Investments

Association of International Wealth Management of India

Investments

INDIAN ASSOCIATION OF ALTERNATIVE INVESTMENT FUNDS

Pre -Investment

Research Report / Rationale for investment

Investment approval process – Fund Manager / Investment Committee

Investment

Limit Monitoring basis Investible Funds:

Category I & II : 25% single Issuer.
Category III : 10% single Issuer

Category I & II : Unlisted securities

Limit to be maintained, during the lifetime of the fund

Post - Investment

Oversight on investment and rectification as a continuing process

Category III AIFs engaged in leverage: leverage ratio to be reported to custodian before EOD of next business day.

In case of breach of leverage ratio, rectification to be done before 10.00 a.m. next business day and inform investors.

Process / Policies

- Stewardship Policy
- Investment Manual (Best execution, trade allocation etc.)
- Broker empanelment Policy
- Trade Error Policy

Association of International Wealth Management of India

Investments

INDIAN ASSOCIATION OF ALTERNATIVE INVESTMENT FUNDS

Insider Trading

- Implement Insider trading Policy in line with SEBI (Insider Trading Regulations), 2015;
- Checks and controls on Front Running

Unpublished Price Sensitive Information

- Process in place to ensure no employee trades or takes advantage of any Unpublished price sensitive Information;
- Controls to check communications with clients and third parties

Conflict of Interest

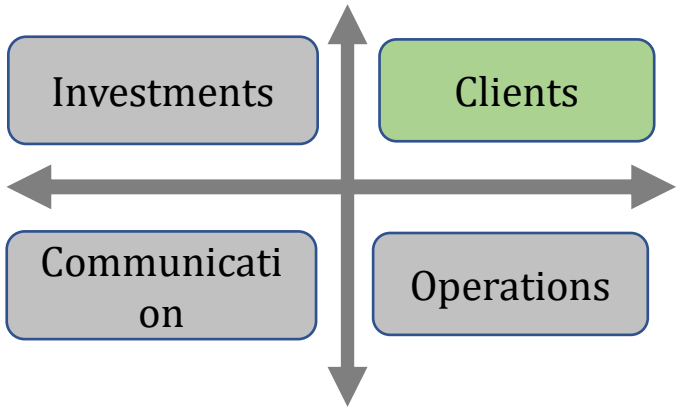
- Documented policy identifying instances where conflict may arise and process for dealing with such conflict
- Disclosure to investors if any conflict situation has arisen

SREI Order:

- Not Meeting investment conditions as per PPM
- Non compliance with single investee company exposure as per SEBI regulations
- Not maintaining sponsor contribution

Association of International Wealth Management of India

INDIAN ASSOCIATION OF ALTERNATIVE INVESTMENT FUNDS



Client Onboarding

Association of International Wealth Management of India

Client Onboarding

INDIAN ASSOCIATION OF ALTERNATIVE INVESTMENT FUNDS

1 KYC

- Collect proof of identity and proof of address
- Identify UBO in case of Corporate entity
- Collect proof of identity for UBO and directors
- Mask Aadhar and take consent

2 AML Check

Check the following sanctions list:

- UNSCR
- OFAC
- SEBI debarred
- Negative market news
- PEP verification

Clients are CKYC and KRA complied

3 Enhanced Due Diligence

- PEP: ensure senior management approval is in place post EDD
- Negative news: depending on gravity onboard post EDD
- No client from USCR or OFAC sanctions list to be onboarded

4 Risk Categorization

- Categorize investors into High, Medium and Low
- Categorization of investors to be maintained at all times

5 Periodical review

- High Risk investors: KYC and due diligence to be undertaken more frequently
- Medium and Low: can be undertaken as per internal process

Association of International Wealth Management of India

AML Policy

INDIAN ASSOCIATION OF ALTERNATIVE INVESTMENT FUNDS

Transaction Monitoring

- Set criteria for identifying suspicious transactions;
- Any transaction identified as suspicious to be reported to FIU within 7 days of such identification
- Undertake NPO reporting to FIU within 15 days from the month end

AML Policy

- Draft AML Policy in line with the SEBI Master circular of 2019 and PMLA Rules
- Keep the policy upto date with any amendments

Training

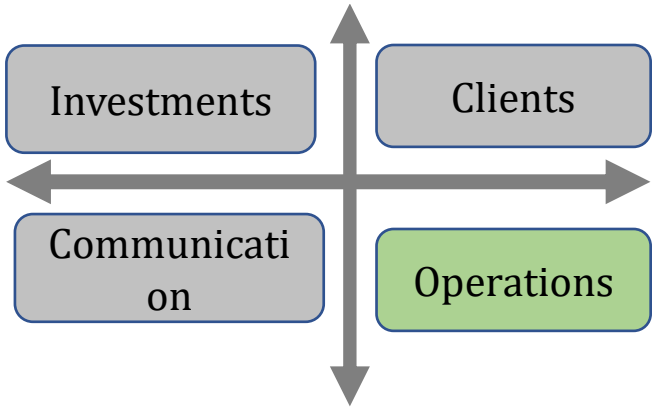
- Identify the front line and operations team who needs to undergo training;

BOD Order:

- Imposed penalty of INR 40 lakhs for not meeting criteria of AML requirements

Association of International Wealth Management of India

INDIAN ASSOCIATION OF ALTERNATIVE INVESTMENT FUNDS



Operations

Association of International Wealth Management of India

Operations

INDIAN ASSOCIATION OF ALTERNATIVE INVESTMENT FUNDS

Sponsor Contribution

- Category II AIF : Sponsor to maintain 2.5% of the corpus or 5 crore whichever is lesser
- Category III AIF : Sponsor to maintain 5% of the corpus or Rs.10 Crore whichever is lesser
- At the initial stages of the fund, the sponsor contribution can be in proportion to the contributions called from other investors
- At the time of distribution, the sponsor has to maintain the contribution till the end of the scheme and should be the last entity to whom distribution is made

Corpus

- AIF schemes should maintain minimum corpus of INR 20 Crore
- Any fall in corpus due to receipt of redemption request should be intimated to SEBI within 3 working days of receipt of redemption request
- Corpus to be revived back to INR 20 crore within 3 months in absence of which redemption to be carried out to all the investors.

Minimum contribution

- Minimum INR 1 Crore
- Only permissible relationship can together contribute INR 1Crore :

- investor and spouse,
- investor and children,
- investor and parent

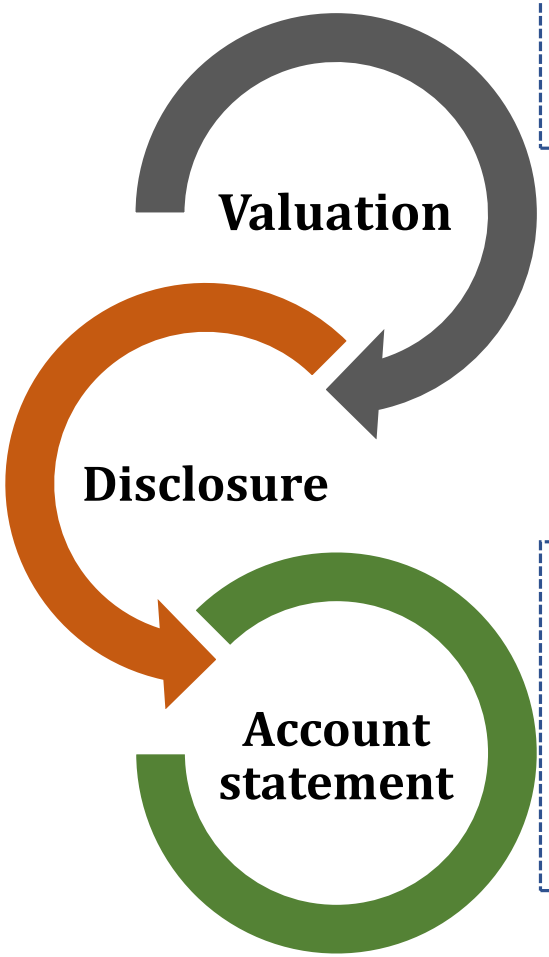
- In case of minor holding there can only be one additional holder

Association of International Wealth Management of India

IAAIF
INDIAN ASSOCIATION OF ALTERNATIVE INVESTMENT FUNDS

Valuation

Disclose to the investors detailed valuation policy and process

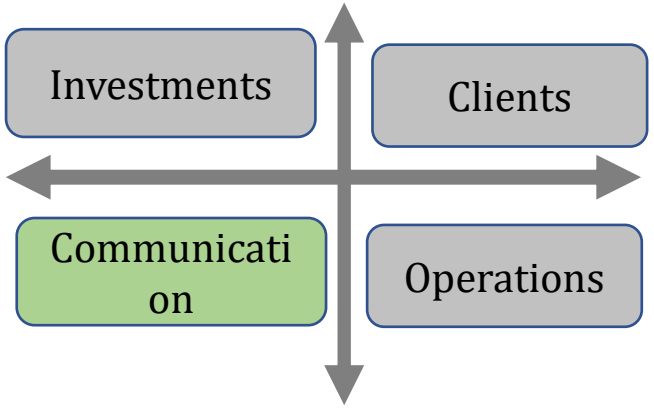


- Category I & II AIFs to undertake valuation every six months
- Category III AIFs (open ended) to disclose NAV every month for open ended
- Category III AIFs (Close ended) to disclose NAV, every quarter for close ended
- Fund Management and Fund Accountant should be different

- Capture adequate information in SOA i.e. nomination, pledge, KYC information
- Taxation clarity (specifically in case of schemes undertaking leverage) should be provided in brief

Association of International Wealth Management of India

INDIAN ASSOCIATION OF ALTERNATIVE INVESTMENT FUNDS



Client Communication

Association of International Wealth Management of India

Client Communication

INDIAN ASSOCIATION OF ALTERNATIVE INVESTMENT FUNDS

Advertisement

- True and fair;
- Appropriate disclaimer
- Strictly on private placement (including information on website should not induce investment)
- In case of offshore solicitation, legend of relevant jurisdiction

Regulatory Reporting

- Reporting on risks and mandatory disclosures under Regulaiton 22(g) –
- Category III AIF schemes within 60 days from quarter end.
- Category II AIF schemes within 180 days from year end.

PPM Modification

- Non fundamental in nature: intimate within 7 days of change
- Fundamental change: provide exit option. Exit option not required if consent received from 2/3rd majority by value of investment
- Change in Investment objective and extension of tenure of close ended scheme : obtain consent from 2/3rd majority by value of investment

Foreign Investment

Association of International Wealth Management of India

Foreign Investment

INDIAN ASSOCIATION OF ALTERNATIVE INVESTMENT FUNDS

	Category I	Category II	Category III
NRO	Domestic	Domestic	Domestic
NRE*	Foreign Investment	Foreign Investment	Foreign Investment
FPI*	Not Permitted	Not Permitted	Permitted – upto 25% of corpus of scheme. FPIinvestment restriction to be followed
FDI*	Permitted – no FDI limit to be followed	Permitted – no FDI limit to be followed	Not permitted

* Form INVI reporting to be done on FIRMS portal

FOCC:

- Sponsor or investment manager of an AIF is not held by resident Indian, irrespective of whether there is foreign investment or not, the scheme shall follow FDI limits.
- Form DI reporting to be undertaken for every downstream investment made by the scheme

Association of International Wealth Management of India

INDIAN ASSOCIATION OF ALTERNATIVE INVESTMENT FUNDS

Association of International Wealth Management of India

INDIAN ASSOCIATION OF ALTERNATIVE INVESTMENT FUNDS

Thank you

You can connect with me on:

Leela.naidu7@gmail.com

@leelarnaidu

www.linkedin.com/in/Leelavathi-Naidu-ob030661