

What's New

News Flash



November 2016

FPIs can invest in Alternative Investment Funds

The Securities and Exchange Board of India (SEBI) has permitted Foreign Portfolio Investors (FPIs) to invest in units of a Category III Alternative Investment Fund (AIF).

An AIF is a SEBI registered fund established as an investment vehicle in India to privately pool funds from foreign or domestic investors. Investments by an AIF is to be made in accordance with its investment policy and the relevant regulations as prescribed.



Category III AIFs are typically hedge funds which primarily invest in listed or unlisted securities, derivatives and complex or structured products.

Key considerations:

- FPIs are permitted to hold a maximum stake of 25% in Category III AIFs as against 100% for other foreign investors.
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- Category III AIF having FPI investors are permitted to make portfolio investments in only those securities or instruments in which FPIs are allowed to invest.
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- A Category III AIF offers advantages like possibility of local borrowing and leveraging, holding an interest bearing bank account, local fund management etc.



While tax pass through status is not specifically accorded to Category III AIF, it can be achieved to a large extent, in certain cases where an AIF has been set up as a trust entity.



Category III AIFs are gaining popularity amongst investors with over INR 65 billion (USD 970 million approx.) being raised from such entities as on 30 September, 2016¹.

Category III AIF route opens up an alternate avenue for FPI investment in Indian capital markets and can also be considered opportunity to invest through an onshore platform.

In case you need any assistance, please feel free to contact us.

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