

DRAFT CIRCULAR FOR PUBLIC COMMENTS

Clarifications and specific modalities with respect to maintaining pro-rata rights of investors of AIFs

1. Background:

- 1.1. SEBI (Alternative Investment Funds) Regulations, 2012 (“AIF Regulations”) were amended and notified on November 18, 2024, with respect to maintaining pro-rata and pari-passu rights of investors in a scheme of an AIF. Subsequently, [SEBI Circular dated December 13, 2024 on ‘Pro-rata and pari-passu rights of investors of AIFs’](#) prescribed, *inter-alia*, specific exemptions with respect to maintaining pro-rata rights of investors of AIFs (Part A of the said circular).
- 1.2. In this regard, SEBI has been in receipt of representations from AIF industry, seeking certain flexibility and clarity with respect to the requirement for maintaining pro-rata rights of investors of AIFs.
- 1.3. Taking into account the representations received from the AIF industry and the discussions held with the Standard Setting Forum for AIFs, a draft circular has been prepared to provide clarification on certain operational aspects and prescribe specific modalities with respect to maintaining pro-rata rights of investors of AIFs, in line with the regulatory intent.

2. Public Comments:

- 2.1. Public comments are invited on the draft circular titled “*Clarifications and specific modalities with respect to maintaining pro-rata rights of investors of AIFs*”, placed at [Annexure I](#) below. The comments/ suggestions should be submitted latest by November 28, 2025, through the following link:
<https://www.sebi.gov.in/sebiweb/publiccommentv2/PublicCommentAction.do?doPublicComments=yes>
- 2.2. In case of any technical issue in submitting your comment through web based public comments form, you may contact afdconsultation@sebi.gov.in, with a copy to padmab@sebi.gov.in, through

email with subject: *“Clarifications and specific modalities with respect to maintaining pro-rata rights of investors of AIFs”.*

Issued on: November 07, 2025

DRAFT CIRCULAR

SEBI/HO/AFD/AFD-POD-1/P/CIR/2025/xxx

November xx, 2025

To,

All Alternative Investment Funds (AIFs)

Sir/Madam,

Sub: Clarifications and specific modalities with respect to maintaining pro-rata rights of investors of AIFs

1. Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012 ("AIF Regulations") were amended and notified on November 18, 2024, with respect to maintaining pro-rata and pari-passu rights of investors in a scheme of an AIF. Regulation 20(21) of AIF Regulations, inserted vide the aforesaid amendment, states as under –

"The investors of a scheme of an Alternative Investment Fund shall have rights, pro-rata to their commitment to the scheme, in each investment of the scheme and in the distribution of proceeds of such investment, except as may be specified by the Board from time to time:

Provided that the rights of the investors of a scheme of Alternative Investment Fund issued prior to the notification of the Securities and Exchange Board of India (Alternative Investment Funds) (Fifth Amendment) Regulations, 2024, which are not pro-rata to their commitment to the scheme and not exempted by the Board, shall be dealt with in the manner specified by the Board."

2. Subsequently, [SEBI Circular dated December 13, 2024 on 'Pro-rata and pari-passu rights of investors of AIFs'](#) prescribed, *inter-alia*, specific exemptions with respect to maintaining pro-rata rights of investors of AIFs (Part A of the said circular).

3. Based on the feedback received from the AIF industry, it has been decided to provide clarity on certain operational aspects and specific modalities with respect to maintaining pro-rata rights of investors of AIFs, in this circular.

4. ***Maintaining pro-rata rights of investors in close ended schemes of AIFs –***

Proposal 1 – Drawdown Methodology - Commitment may be construed as ‘commitment’ or ‘undrawn commitment’ for drawing down capital from investors for investment

4.1. For compliance with Regulation 20(21) of AIF Regulations, the commitment referred in the said Regulation shall be construed as commitment or undrawn commitment, for the purpose of drawing down capital from investors of a scheme of an AIF on a pro-rata basis for making investments and for distribution of proceeds from such investments.

Explanation: The investors of a scheme of an AIF shall have rights in distribution of proceeds of an investment pro-rata to their contribution to such investment; or, pro-rata to their contribution to such investment on a time weighted pro-rata basis, as clearly disclosed upfront to investors in the PPM of the scheme.

4.2. ‘Undrawn commitment’ shall mean the commitment made by the investor to the scheme, net of funds already drawn down by the AIF for making investments or otherwise.

4.3. In case a close ended scheme of an AIF issues and redeems units at NAV, such scheme shall also satisfy the aforesaid condition at para 4.1 while drawing down capital for making investment.

Proposal 2 – Conditions and disclosures with respect to adopting a drawdown methodology

4.4. The basis for calculating pro-rata rights, whether based on commitment or undrawn commitment of the investor(s), shall be disclosed upfront in the PPM of the scheme and shall not be changed during its tenure.

- 4.5. If a scheme of an AIF opts for drawdown methodology based on commitment of investors to the scheme and if an investor does not participate in a particular investment due to excuse/exclusion, the unutilised commitment of the investor to this extent, shall not be used for making subsequent investments. The same shall be disclosed upfront to the investors of the scheme.
- 4.6. Drawdown methodology should not result in any investor holding disproportionate stake in an investee company through the AIF, i.e., the ratio of investor's contribution to an investee company *vis-à-vis* investor's commitment to the scheme shall not exceed the concentration limit prescribed for the scheme under Regulation 15(c) of AIF Regulations.

Proposal 3 – Applicability of drawdown methodology on existing AIF schemes

- 4.7. Existing schemes of AIFs which are following drawdown based on either of the aforesaid methodologies, shall continue with the said methodology till the end of its tenure.
- 4.8. Existing schemes of AIFs which are following any other methodology for drawing down / accepting money for making investment, shall align their drawdown methodology with any of the methodologies as specified at para 4.1, in drawdown notices issued post the issuance of this circular for making investment.
- 4.9. Such alignment of drawdown methodology in terms of para 4.8 above shall be disclosed explicitly to the investors and shall not be construed as a 'Material Change'. The investors in such schemes of AIFs shall have the option whether to continue contributing to investments made by the AIF post the issuance of this circular. In case they opt not to, any consequent breach of provisions of AIF Regulations with respect to minimum investment requirement or limits based on corpus or investable funds, may not be considered as non-compliance in this regard.

Proposal 4 – Drawdown and distribution in open ended schemes of Category III AIFs

5. *Maintaining pro-rata rights of investors in open ended schemes of Category III AIFs –*

- 5.1. In case of open ended schemes of Category III AIFs, considering that investors may invest in the scheme any amount at any time at their discretion, subject to clause 4.7 of SEBI Master Circular for AIFs dated May 07, 2024, drawdown on pro-rata basis may not be applicable.
- 5.2. Accordingly, open ended schemes of Category III AIFs, shall issue and redeem units at NAV, and other proceeds, if any, shall be distributed pro-rata to units held by the investors.
- 5.3. However, if an open ended scheme of Category III AIF has invested or is proposing to invest primarily in unlisted securities, then the conditions specified at para 4 above shall be complied with.

Proposal 5 – Applicability with respect to distribution of existing investments made by AIFs

6. *Applicability on existing investments of AIFs –*

- 6.1. In terms of proviso to Regulation 20(21) of AIF Regulations, rights of investors of AIFs/schemes of AIFs issued prior to the date of notification of the aforesaid amendment to AIF Regulations, that are not pro-rata to their commitment to the AIF/scheme and not exempted by SEBI, shall be dealt with in the manner specified by SEBI.

Accordingly, as per para 9 of SEBI circular dated December 13, 2024, existing AIFs/schemes of AIFs that have adopted priority distribution model and not falling under the exemption at para 5 of the said circular, were directed to neither accept any fresh commitment nor make investment in a new investee company, directly or indirectly.

- 6.2. In this regard, it is further clarified that the distribution of proceeds from investments already made by AIFs/schemes of AIFs on or before December 13, 2024, shall be as per the terms of distribution/distribution waterfall as disclosed in PPM and/or other fund documents.

Proposal 6 – Proposal related to carried interest and other clarity -

7. Other clarifications –

- 7.1. Based on the feedback received from AIF industry, para 4 of the [SEBI Circular dated December 13, 2024 on 'Pro-rata and pari-passu rights of investors of AIFs'](#) stands modified as under –

“Further, the requirement of maintaining pro-rata rights of investors in distribution of proceeds of investments of a scheme, shall not be applicable to the extent returns or profit on the investments is shared by an investor with the manager or sponsor of the AIF or employees/ directors/ partners of the manager of the AIF (by whatever name it is called, such as carried interest/additional return), in terms of contribution agreement executed between them.”

- 7.2. For the purpose of uniformity, it is further clarified that the commitment made by an investor (whether resident or non-resident) to an AIF or scheme of AIF shall be recorded/recognised in INR in the contribution agreement for the purpose of calculation of corpus of the scheme. This commitment amount in INR shall form the basis for deciding drawdown basis pro-rata to commitment or undrawn commitment of the investor.
8. In case any further clarity is required in the said matter, the Standard Setting Forum for AIFs ('SFA'), in consultation with SEBI, shall formulate implementation standards for compliance with provisions of this circular, based on principles/guidelines enumerated in AIF Regulations and circulars issued thereunder. The implementation standards formulated by SFA, if any, shall be published on the websites of the industry associations which are part of SFA, i.e., Indian Venture and Alternate Capital Association (IVCA), PE VC CFO Association and Trustee Association of India.

9. All other provisions under Part A of the SEBI circular dated December 13, 2024 remains unchanged.
10. The manager and Key Management Personnel of the AIF and manager shall be responsible for maintaining necessary records describing how the pro-rata rights of investors are maintained in compliance with AIF Regulations and circulars issued thereunder.
11. The trustee/sponsor of AIF, as the case may be, shall ensure that the 'Compliance Test Report' prepared by the manager in terms of Chapter 15 of SEBI Master Circular for AIFs dated May 07, 2024, includes compliance with the provisions of this circular.
12. This circular shall come into force with immediate effect.
13. This circular is issued with the approval of the competent authority.
14. This circular is issued in exercise of powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992, read with Regulations 20(21) and 36 of AIF Regulations, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.
15. The circular is available on SEBI website at www.sebi.gov.in under the categories "Legal framework - Circulars" and "Info for - Alternative Investment Funds".

Yours faithfully,
