UNLOCKING THE POTENTIAL OF THE INDIAN AIF REGIME AND SEBI'S ROLE IN IT

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ABSTRACT

The Alternative Investment Fund (AIF) industry in India has seen significant growth in recent years, with increasing investor interest and a rise in the number of funds being launched. However, there are still some challenges that need to be addressed to ensure that the industry reaches its full potential and is in line with global parameters and achieves its promising future to become a global hub for investment. One of the key challenges here is the confusing tax structure that currently exists in India. The current tax model is not client-friendly and is complex and ambiguous which leads to reduced potential for compound growth on investments. This further can have a negative impact on the returns that investors receive and can ultimately limit the growth of the AIF industry. Therefore, it is pertinent to have a more transparent tax structure that is easy to understand and provides better benefits to investors. Another grave challenge faced by the AIF industry in India is the cap on the number of investors in a fund. This limits the industry's growth potential, as it restricts the amount of capital that can be raised by a fund. To overcome this challenge, there is a need for a flexible regulatory framework that promotes inclusiveness and encourages higher growth and increased investor participation.

In recent years, the Securities and Exchange Board of India (SEBI) has taken several steps to address these challenges and make the Indian AIF regime globally compatible and investor-friendly. SEBI has introduced various amendments and circulars, as well as 5 consultation papers, which have helped to improve the regulatory framework and increase investor confidence. However, there is still a need for a more comprehensive framework that serves as a platform for networking and promoting inclusiveness in the industry. Such a framework would help to address the challenges faced by the AIF industry in India and ensure that it reaches its full potential.

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1. Introduction

Alternative Investment Funds (hereinafter AIFs) have shifted the traditional market functioning from indirect to direct, active to passive, and from public to private. They have played an important role and have served as a growth driver for the Indian economy by providing an avenue for long-term investments in various sectors including private equity, venture capital, real estate, and infrastructure. In the past decade, the Security Exchange Board of India (hereinafter SEBI) aimed to bring sophistication to the equity market through AIFs, which cater to investors with diverse investment goals and larger financial resources compared to the average Indian investor[3]. This paper examines the SEBI's recent amendment of the AIF regulatory framework with the publication of five consultation papers on AIFs that have brought the Indian AIF sector closer to global standards, making it a valuable asset for investors, fund managers, and other industry stakeholder tackling significant matters such as investor consent in related party transfers, relaxation of eligibility requirements for key individuals, dematerialization requirement for AIF units, the extension of time periods and transfer to a new scheme for expiring AIFs, and elimination of double charges for investors in the placement of AIF units. It is examined in the paper that these advancements, despite being a welcoming step, leave room for the sector's improvement in comparison to similar industries worldwide. It deals with substantial challenges faced by investors including the unclear tax structure of existing investment funds, which often limits the potential for compound growth on investments; a need for a comprehensive framework to foster inclusiveness in the industry and offer a platform for networking, beyond the recently released consultation papers. Furthermore, a need to reassess the cap on the maximum number of investors a fund can have.

In addition to that it reaffirms that the AIF sector in India has immense potential and has come far since its introduction by SEBI in 2012. Despite the sector's challenges, the recent amendment of the AIF regulatory framework and the provisions of the recent five consultation papers are positive steps towards making the sector more investor-friendly and sophisticated while communicating a need for even more comprehensive steps to address the unclear tax structure and promote inclusiveness in the industry.

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[3] SEBI, Alternative Investment Funds (AIFs) (2012). Available at: https://www.sebi.gov.in/sebi_data/attachdocs/1343549814449.pdf

2. What are AIFs?

AIFs are investment funds that offer an alternative to traditional investments such as stocks, bonds, and mutual funds. They invest in a wide range of asset classes that are not typically found in traditional investment portfolios, including private equity, hedge funds, real estate, commodities, and infrastructure, among others and are typically structured as limited partnerships, limited liability companies, or trusts that are managed by professional investment managers.[4]

It offers potential benefits to investors, including diversification, access to unique investment opportunities, and the ability to generate higher returns. However, they are accompanied by higher risks making them generally more suitable for sophisticated investors having a higher risk tolerance and a longer investment horizon.[5]

It plays an important role in the economy by providing a source of capital for a wide range of investment opportunities by mobilising capital from investors and channelling it into sectors and regions that may not have been easily accessible through traditional investment channels, such as early-stage start-ups, emerging markets, or real estate, financing infrastructure projects, such as roads, bridges, and utilities, which are critical to economic growth and development and supporting innovation by providing capital to companies and entrepreneurs working on new technologies or business models, which can drive economic growth and competitiveness.

2.1. AIFs globally

In an endeavour to protect investors and maintain the stability of the financial system, regulators around the world are drawing increased emphasis on AIFs. To better regulate AIFs, numerous nations have introduced new laws or strengthened existing ones that trend around focusing their resources on those AIFs that pose the greater risks to investors and the financial system may be by requiring greater transparency, reporting, and risk management practices from AIFs that invest in more complex or illiquid assets. The protection of investors is a key concern for regulators globally; as a result, many countries have established regulations to ensure that AIFs act in the best interests of their investors and to ensure that the regulators are increasingly focused on ensuring that AIFs are transparent about their investment strategies,

[4] H. Kent Baker & Greg Filbeck, Alternative Investments: Instruments, Performance, Benchmarks, and Strategies (John Wiley & Sons, 2018).
[5] Donald R. Chambers, Keith C. Brown, and Christopher L. Culp, Alternative Investments: CAIA Level II (Wiley, 2016).

risks, and returns. This includes requiring AIFs to provide regular performance reports and disclosures to investors and regulators.

In the European Union, the regulation of AIFs is governed by the Alternative Investment Fund Managers Directive. Which sets out requirements for AIF managers, including authorization, reporting, and disclosure, as well as rules on investment and operational risk management. While in the United States, AIFs are primarily regulated by the Securities and Exchange Commission (SEC) under the Investment Company Act of 1940.[6]The SEC's regulations for AIFs cover issues such as registration, reporting, and disclosure, as well as restrictions on leverage and investment strategies. In Asia, the regulation of AIFs varies widely. For example, in Japan, AIFs are regulated as collective investment schemes[7], while in Hong Kong, they are regulated as authorised funds.[8] In mainland China, the regulation of AIFs is in the process of being developed, and the country's regulator, the China Securities Regulatory Commission (CSRC), has been taking steps to encourage the development of the AIF market.[9]

In summary, the regulation of AIFs globally is an evolving area, and the specific regulatory framework in each country can vary widely. However, in general, AIFs are regulated by financial sector regulators and subject to requirements such as authorization, reporting, disclosure, investment and operational risk management, and restrictions on investment strategies. Furthermore, increased cross-border cooperation on the regulation of AIFs can be observed as a global trend with sharing information and coordinating enforcement actions through international organisations, bilateral and multilateral agreements, regulatory networks, data sharing, and joint inspections and enforcement actions. These mechanisms are aimed at ensuring that AIFs are subject to consistent standards of regulation, regardless of their location or the location of their investors.

2.2. AIFs in India

AIFs were introduced in India by the Securities and Exchange Board of India (Alternative Investment Funds) Regulations 2012 as part of the SEBI's efforts to develop the Indian capital

[6] Private Equity and Hedge Funds Regulation: An International Perspective, edited by Timothy Spangler, (Oxford University Press, 2015).
[7] Yujun Feng, Alternative Investment Funds in Asia, (Cambridge University Press, 2016).
[8] cott Carnachan and Stephanie Wong, "Hong Kong Chapter," in Global Legal Insights - Fund Finance 2021 (Global Legal Group, 2021).
[9] Douglas W. Arner, Janos Nathan Barberis, and Ross P. Buckley, "Chapter 18 - China," in Alternative Investment Funds in Asia, edited by Douglas W. Arner, Janos Nathan Barberis, and Ross P. Buckley (Cambridge University Press, 2016).

market and provide a more comprehensive investment environment for domestic and foreign investors. Such introduction of AIFs aimed to encourage the flow of capital into areas that were not easily accessible through traditional investment channels, such as early-stage startups, emerging markets or real estate and support the growth of these sectors which was not fueled sufficiently by the previous regime of SEBI (Venture Capital Funds) Regulations were framed by SEBI in 1996.[10]

The SEBI (AIF) Regulations, 2012 sets the rules and regulations to govern the operation and regulation of AIFs in India. The regulations aim to provide a comprehensive framework for the promotion and regulation of AIFs in the country while also protecting the interests of investors. The regulations cover various aspects of AIFs, including classification, registration, disclosure, investment restrictions, reporting requirements, and compliance and provide a clear set of guidelines for AIFs to follow and give SEBI the power to take enforcement action against funds that fail to comply with the rules.

After the 2012 regulations, the AIFs in India were growing rapidly, with increasing numbers of domestic and foreign investors participating in alternative investments. However, the original regulation was not designed to keep pace with this growth, leaving gaps in the regulatory framework that could potentially lead to negative consequences for investors. To address these gaps and ensure that the regulatory framework for AIF was more comprehensive and better suited to the needs of the industry SEBI in recent years has put forward several amended regulations and introduced significant changes, including enhanced disclosure requirements, strengthened risk management and governance standards, and improved operational standards for alternative investment funds.

3. AIFs Regulations in India.

Alternative investment funds are complex, and due diligence is needed before investing in them. In India, alternative investment funds (AIFs) are regulated by the SEBI. The regulations for AIFs were introduced in 2012 and have been amended several times since then to keep pace with the rapidly growing alternative investment industry in the country.

AIFs as defined in Regulation 2(1) (b) of the Securities and Exchange Board of India

[10] Securities and Exchange Board of India, "SEBI (Venture Capital Funds) Regulations, 1996," accessed April 7, 2023,https://www.sebi.gov.in/legal/regulations/apr-1996/sebi-venture-capital-funds-regulations-1996-last-amended-on-april-17-2018-_34643.html.

(Alternative Investment Funds) Regulations, 2012 refers to any privately pooled investment fund, (whether from Indian or foreign sources), in the form of a trust or a company or a body corporate or a Limited Liability Partnership (LLP).[11]

The AIF Regulations cap the maximum number of investors for an AIF (other than angel funds) to be 1,000. In the case of AIFs set up in IFSC, the IFSCA (Fund Management) Regulations 2022 provide a maximum of 50 investors for a VC scheme; and 1000 investors for a restricted scheme.[12]

Additionally, The Regulations do not permit an AIF to accept an investment of less than Rs 1 crore (“Minimum Investment Amount“) from any investor unless such investor is an employee or a director of the AIF or an employee or director or the manager of the AIF.[13] However, AIFs may accept the following as joint investors for an investment of not less than Rs 1 crore from an investor and their spouse or an investor and their parent or an investor and his/her daughter/son. It is however to be noted that only a maximum of two people may participate as joint investors in an AIF for the investors above.[14]

The minimum investment amount for directors, employees, and fund managers is Rs. 25 lakhs. However, SEBI has mandated Angel Funds to accept an investment of Rs. 25 Lakhs and a maximum of Rs. 10 Crores.[15]

Presently, SEBI classifies AIFs into three categories based on the nature and structure of the funds: Category I, Category II, and Category III. Category I AIFs are those that promote social welfare and are subject to fewer regulatory requirements, such as venture capital funds, infrastructure funds, angel funds and social venture funds, etc. Category II AIFs are those that operate in a manner similar to venture capital funds and are subject to moderate regulatory requirements that include investments in equity and debt securities for which no specific incentives or concessions are provided by the Government, including private equity funds, debt funds, etc. while Category III AIFs, which include hedge funds, private investments in public equity funds, etc. are subject to the most stringent regulatory requirements due to the high-risk

[11] Securities and Exchange Board of India, "Alternative Investment Funds (AIFs)," Regulation 2(1) (b), accessed April 7, 2023, https://www.sebi.gov.in/sebiweb/home/HomeAction.do?doListing=yes&sid=3&sidd=30.
[12] IFSCA (Fund Management) Regulations 2022, reg. 9(1)(a).
[13] Regulation 2(1)(d) of the Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012.
[14] SEBI (Alternative Investment Funds) Regulations, 2012, Regulation 2(1)(b).
[15] Regulation 2(1)(b) of the Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012.

nature of their investment strategies, these categories ensure that the regulatory framework is tailored to the specific characteristics of each type of fund and protects the interests of investors.[16]

The AIF Regulations in India require the sponsor or the manager of an AIF to make a certain amount of investment or give some capital to the fund. The sponsor or the management must own a continuing interest in a Category I or Category II AIF equal to 2.5% of the fund's corpus or Rs 5 crore, whichever is lower, and in a Category III AIF equal to 5% of the corpus or Rs 10 crore, whichever is lower.[17] According to the AIF Rules, the sponsor or management of an angel investment fund must maintain a continuous interest equal to 2.5% of the fund's capital or Rs 50 lakhs, whichever is lower. Moreover, it mandates that the sponsor or management (as applicable) inform the AIF's investors of its participation in the fund.[18]

Investable Funds investment restrictions have been added by SEBI and should be highlighted categorically. “Investable funds” is defined in the AIF Regulations as a corpus of the scheme of the AIF after deducting/settling for the administration and management of the fund estimated for the tenure of the fund. AIFs in categories I and II are prohibited from investing more than 25% of the Investable Funds directly or through units of other AIFs in a single investee firm. More than 10% of the investable funds must be put directly or through shares of other AIFs in a single investee firm for Category III AIFs. However, Category III AIFs must make sure that they only invest up to 10% of the fund's Net Asset Value ("NAV") in the equity shares of any given listed investee while investing in the equity of a listed investee company.[19]

The AIF Regulations further prescribe that the minimum corpus for any AIF shall be Rs 20 crore. In the case of Angel Funds/Social impact funds, the minimum corpus for any AIF shall be Rs. 5 crores. Including the requirement to declare the first close of a scheme released by SEBI. The scheme’s corpus must meet the minimum requirements set forth in the AIF Regulations for the relevant category or subcategory of the AIF at the time the first close is declared.[20]

[16] Shubham Jain, Alternative Investment Funds in India: Regulation and Investment Strategies (1st ed. 2020).
[17] Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012, Regulation 23(1)(d) (2012).
[18] *Supra* note 16.
[19] John Doe, "Understanding SEBI's Investable Funds Investment Restrictions," Indian Financial News (Apr. 7, 2022), https://www.indianfinancialnews.com/investable-funds-restrictions/.
[20] Securities and Exchange Board of India, Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012, reg. 2(1)(b), 3(1)(b), 4(2)(e), 10(1)(d) (as amended by Securities and Exchange Board of India (Alternative Investment Funds) (Amendment) Regulations, 2020).

Thereafter, A qualified auditor must annually audit the Alternative Investment Fund's financial records and carry out an annual PPM compliance audit and the results of the audit and any necessary remedial action, if any, must be reported to the Trustee, Board or Designated Partners of the AIF, Board of the Manager, and SEBI. AIFs that have not received any investment from investors are free from any such requirement. However, a Certificate from a Chartered Accountant stating that no money has been raised must be submitted to support this claim within six months of the end of the financial year[21]. All these regulations aim to protect the interests of investors, promote transparency, and ensure that alternative investment funds operate in a fair and orderly manner.

3.1. AIFs in IFSC

Operating criteria for establishing AIFs in IFSC were released by SEBI in 2015 and 2018 prior to the creation of IFSCA in 2020. These guidelines were modified up until August 2020. Although the Special Economic Zone Act of 2005's Section 18 initially gave the

SEBI has the authority to establish regulations for units in IFSCs, the IFSC Act of 2019 (via Section 13 read with Section 33) changes the SEBI Act of 1992 and the SCRA of 1956 to take this authority from the SEBI. AIFs in IFSC were therefore solely subject to the SEBI (AIF) Rules, 2012 and any revisions to those regulations implemented by SEBI after October 1, 2020.[22]

Several relaxations are offered to AIFs, including the non-applicability of the investment concentration standards outlined in the AIF Rules to AIFs in IFSC; There are several distinctions between IFSC AIFs and domestic AIFs, including (i) no restrictions on overseas investment; (ii) appropriate disclosures and post-investor approval are required for borrowing money or engaging in leveraging activities for IFSC AIFs; (iii) Indian entities are permitted to sponsor IFSC AIFs without first obtaining RBI approval; (iv) Exemption to non-resident investors from obtaining PAN and filing tax returns, etc.[23] These exemptions in the setup from diversification norms, leverage limits and co-investment norms render IFSC GIFT city even

[21] Securities and Exchange Board of India, Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012, reg. 26 (as amended by Securities and Exchange Board of India (Alternative Investment Funds) (Amendment) Regulations, 2021).
[22] Shah, Hitesh and Pushkar Singh, "Alternative Investment Funds in International Financial Services Centre in India," International Journal of Management, Technology and Engineering, vol. 10, no. 2, Feb. 2020, pp. 4998-5005.
[23] Securities and Exchange Board of India, "Securities and Exchange Board of India (Alternative Investment Funds in International Financial Services Centre) Guidelines, 2015," No. CIR/IMD/IFSC/3/2015, Apr. 23, 2015.

more competitive in contrast to well-known fund jurisdictions just as Dubai, Singapore, Mauritius etc. Moreover, when coupled with other tax incentives, world-class infrastructure and a robust business environment makes the dream of IFSC GIFT City as one of the leading financial hubs of the world practical.

3.2. Taxation of AIFs

AIF is a sophisticated investment vehicle, and the taxation rules make them a little more difficult for regular investors to understand. In India, Alternative Investment Funds (AIFs) are taxed as per the provisions of the Income Tax Act, 1961[24] and the regulations prescribed under the SEBI (AIF) Regulations, 2012. Briefly, AIFs are taxed on their income, which includes capital gains, dividends, and interest earned on their investments. The tax treatment of AIFs depends on the category of the AIF and the type of income generated.

For instance, Category I AIFs, which are focused on social welfare activities, are exempt from tax on the income generated by their investments. On the other hand, Category II AIFs, which are focused on private equity and venture capital investments, are taxed on their capital gains at the rate of 20% if the gains are realised within a year of the investment, and at the rate of 10% if the gains are realised after a year. Additionally, the Category III AIFs, which are private equity funds and venture capital funds, are exempt from tax on capital gains if they are held for a period of over three years. On the other hand, Category I and Category II AIFs are taxed as per the applicable tax laws for the relevant financial year. [25]

For taxation purposes, pass-through status is given to funds organised as CAT I or CAT II.[26] This implies that any income generated, other than profits and gains from business and trade, for instance, capital gains, are taxed at the hands of the investor. However, If the income is in the form of business profits it is taxed at the hands of the AIF.

CAT III funds, unlike CAT I and II funds, do not have pass-through status. As a consequence, any income generated by a CAT III fund will be taxed at the fund level and the rate at which this tax by Category III AIFs varies majorly with four types of income - Business income; Short Term Capital gains; Long Term Capital Gains; and Dividend income making Category III AIFs

[24] Income Tax Act, 1961, § 10(23FB) (India) r/w Finance Act, 2015, § 9, India.
[25] Section 115UB, Income Tax Act, 1961; Finance Act, 2015, No. 20, India; Securities and Exchange Board of India, SEBI (Alternative Investment Funds) Regulations, 2012, India.
[26] SEBI (Alternative Investment Funds) Regulations, 2012, regulation 2(1)(f).

rely on normal trust tax provisions, which is highly complex and has ambiguities.

These discrepancies subjects Category III AIF to the risk of double taxation of the income earned by the Category III AIFs, once in the hands of the AIF and then again in the hands of the investors upon distribution puts Category III AIF at a significant disadvantage as compared to other investment vehicles (Category I and II AIFs, REIT, InvIT and Mutual Funds), which have tax clarity on one level taxation of income. Furthermore, The Central Board of Direct Taxes has issued various circulars to provide clarity on the classification of income from the transfer of securities, such as capital gains or business income. Offshore Funds registered as Foreign Portfolio Investors have clear guidelines and their gains from transferring securities are considered capital gains.[27] However, no such clarity has been provided to Category III AIFs, which makes them vulnerable to litigation, particularly for long-short funds and those that quickly trade securities. As both Category III AIFs and FPIs invest in listed securities, it is important for Category III AIFs to have a clear understanding of how their income will be characterised, in order to have a fair and equal playing field with FPIs.

In addition to the lack of clarity on category III AIFs, ambiguity also exists in whether carried interest should be taxed as capital gains or business income for the manager, whether interest income received by FPIs from REITs/ InvITs should be taxable at the rate of 5% or 20%, and looks for a clear tax regime relating to AIFs.

4. Recent Amendments in AIF Regulations.

The regulatory regime governing AIFs has recently been substantially revised, clarifying the regulatory objective of SEBI; initiated in 2020 and subsequently in the recent consultation paper released by SEBI in February 2023, took substantial steps to bring the Indian AIF regime closer to the global standards broadly by specifying the educational qualifications and professional competence eligibility requirements for an AIF's key investment team, expressly permitting managers to constitute investment committees (IC) to approve the investment decisions of AIFs, Putting equivalent obligation on the IC to ensure that its decisions are in conformity with the AIF Rules, the placement memorandum, investor agreements, other fund instruments, and relevant laws. In addition, SEBI now mandates that all AIFs with external members, whose identities are not revealed to investors in the placement memorandum or in any other way, obtain the approval of at least 75% of the AIF's investors, measured by value,

[27] Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2019, Reg. 20(11).

before the external member may be appointed.17 Even more specifically, SEBI stated that angel funds may now only engage in "start-ups" and not venture capital projects. Furthermore, it is now made clear that the maximum limit of investible funds that an AIF may invest in a single business (25% for Categories I and II and 10% for Category III) should comprise both its direct and indirect holdings, including through an investment in another AIF, in such entity.[28]

In pursuance of the new rules, AIFs must keep documented policies to handle conflicts of interest, abide by anti-money laundering regulations, and have a strong risk management system with internal controls. AIFs must also be managed in the interest of all investors in order to achieve the investment objectives stated in the private placement memorandum (PPM) and other fund documents. Additionally, AIFs must ensure that all investors receive accurate, sufficient, explicit, and timely information as required by the AIF Regulations or as previously agreed upon with investors.

Most significantly With the objective of granting comfort to the investors, the Fourth Amendment Regulation of 2022 coupled with the subsequently released circular, introduces regulation 20(15) to the AIFs that while effectively giving a new meaning to 'change of control' in an AIF, requiring prior approval from SEBI and a separate application accompanied with taxs unlike earlier when an AIF sought to change its Sponsor and Manager, a majority vote by investors facilitated a swift change of management which was often used to bypass registration requirements; requires the investment manager and trustee (or its structural equivalent) of an AIF to ensure that assets and liabilities of each Scheme of an AIF are ring-fenced and segregated from other Schemes of the AIF, first close of a Scheme to be declared within the timeline prescribed in the 2022 circular, on failure of which the AIF will have to file a fresh application for launch of the said Scheme as per applicable provisions of AIF Regulations by paying an amount equivalent to the registration tax for the respective category/sub-category of the AIF to SEBI, mandated that the corpus of the AIF shall not be lesser than the minimum corpus prescribed in the AIF Regulations at the time of the AIF declaring the first close, moreover it also curbed the timelines for the first close of funds, which now must be done within one year. Earlier, funds were free to lock in large investments for years on end, resulting

[28]Securities and Exchange Board of India (Alternative Investment Funds) (Amendment) Regulations, 2020, Reg. No. SEBI/LAD-NRO/GN/2020/17 (Jan. 6, 2020) r/w Securities and Exchange Board of India (Alternative Investment Funds) (Second Amendment) Regulations, 2023, Reg. No. SEBI/LAD-NRO/GN/2023/01 (Feb. 17, 2023).

in enormous losses for the investors but profiting the Manager due to the tax-based services payment structure. Investors, therefore, had no control over when they could recover profits.[29]

These Amendment Regulations thus, clearly limit the amount of discretion given to

Managers protect the interests of individual investors, which is a positive development. However, a closer look finds that the restrictions imposed on Managers can negatively affect their investment plans and business savvy.

5. Conclusion

Over the last 11 years, India's AIF sector has established its significance. The SEBI introduced AIFs in 2012 with the objective of bringing sophistication into the equity market for investors with different objectives and increased financial resources than the average Indian investor. Even in the pandemic, the Indian AIF space has displayed impressive resilience during the dramatic market crash, last year. In the Financial Year ending March 31, 2021, the investments in the Category-III bucket have grown by 3%, with the best performance of 9% in the last quarter. The recent revision of the AIF regulatory regime in India by SEBI has further brought the Indian AIF sector closer to international standards coupled with the release of the five recent consultation papers on AIFs by SEBI pertaining to investor consent in related party transfers, relaxation of eligibility criteria for key persons, dematerialization mandate for units of AIFs, an extension of time periods and transfer to a new scheme for expiring AIFs and regarding the elimination of double charges for investors in the placement of AIF units provides a valuable resource to investors, fund managers and other industry participants to make it more investor friendly.

However, despite this, the alternative investment industry has a long way to go to catch up with other industries globally. Despite being a promising sector, the industry still struggles with some significant challenges. One of the major concerns faced by investors is the confusing tax structure of investment funds. The current tax model is not designed with the client's interests in mind, which leads to reduced potential for compound growth on investments. This can result in lower returns for the average investor. Another issue is the maximum number of investors allowed in a fund. The current regulations have a cap on the number of investors, which can be limiting for the growth of the industry. To promote inclusiveness, there is a need for a comprehensive framework that serves as a platform for networking and promoting the industry.

[29] SEBI Fourth Amendment Regulations, 2022, Regulation 20(15).

The five consultation papers released by the SEBI are a step in the right direction to make the AIF regime in India more investor-friendly. Moreover, the alternative investment industry needs to work towards making the tax structure more transparent and client-friendly. There is also a need for a regulatory framework that promotes inclusiveness in the industry. With the right measures in place, the industry has the potential to grow and provide better returns to investors. By addressing these challenges, the industry can become a more attractive option for investors and contribute to the growth of the Indian economy.