

## Sebi allows AIFs to go global, drops India connect clause

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**By Ashley Coutinho**

The Securities and Exchange Board of India (Sebi) on Thursday allowed alternative investment funds (AIFs) to invest in overseas companies that may not have an India connection by way of a back office or subsidiary.

The requirement to have an 'Indian connection' was a major roadblock for funds seeking a regulatory nod to invest overseas. A relaxation in this regard will help expedite the fund approval process and may considerably widen the scope of investments that AIFs can make. For instance, the funds will now be

able to invest in foreign technology firms set up in developed markets such as the US, the UK or Singapore or in firms set up by non-resident Indians abroad.

“The removal of the ‘India connect’ allows Indian AIFs to go global in their stock selection and bring geographical diversity to their investment thesis,” said Siddarth Pai, founding partner, Zone4 Capital.

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According to a Sebi circular on Monday, these overseas companies have to be from countries whose securities market regulator is a signatory to the International Organization of Securities Commission’s multilateral memorandum of understanding (MoU) or a signatory to the bilateral MoU with the Sebi. The companies should not belong to regions identified by Financial Action Task Force (FATF) as having a strategic anti-money laundering or terror financing deficiencies or those that have not made sufficient progress in addressing the deficiencies.

The Sebi circular said that if a fund liquidates the investment made in an overseas investee company previously, the sale proceeds received from such liquidation, to the extent of investment made in the said overseas investee company, shall be available to all AIFs and VCFs for reinvestment.

It further said that AIFs/VCFs shall furnish the sale/divestment details of the overseas investments to Sebi within three working days of the divestment.

“The Sebi circular clarifies that the cost of overseas investments sold by AIFs will be added back to the available and unutilised limits. This will hopefully help clear some pending applications for overseas investment,” said Tejesh Chitlangi, senior partner, IC Universal Legal.

The aggregate overseas investment limit of \$1.5 billion for AIFs got exhausted sometime back and an enhancement is subject to [RBI](#) nod. As a result, all overseas investment approvals for AIFs have currently been put on hold, said experts.

“The overall limit for making overseas investment has not been increased. Instead, Sebi has provided for replenishment of the limit to the extent of investment made in overseas investee companies that have been liquidated. This may not be sufficient to meet the growing industry demands, given the timing issues in exits as well as the fact that not all investments may return complete capital,” said Parul Jain, head of fund formation at Nishith Desai Associates.

In May 2021, Sebi had doubled the limits for AIFs investing overseas to \$1.5 billion from \$750 million. Sebi had recently asked the Reserve Bank of India to double this limit further.

AIF commitments have grown 42% in the past year to Rs 6.94 trillion, while the amount invested has increased 43% to Rs 3.11 trillion.

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