

Relaxation in Timelines for AIFs' Investments in Dematerialised Form

The Securities and Exchange Board of India (SEBI) has issued a circular on **February 14, 2025**, providing relaxation in timelines for Alternative Investment Funds (AIFs) to hold their investments in dematerialised form. This follows amendments made to the SEBI (Alternative Investment Funds) Regulations, 2012, which were notified on January 5, 2024, mandating AIFs to transition their investments to dematerialised form. SEBI had earlier issued a circular on January 12, 2024, outlining the deadlines for compliance, which was later incorporated into Chapter 21 of the Master Circular for AIFs dated May 7, 2024. However, recognizing the operational challenges faced by AIFs, SEBI has now decided to relax these timelines.

Key Points of the Circular

- **Amendment to AIF Regulations:** SEBI amended the AIF Regulations, 2012, effective from January 5, 2024, mandating AIFs to hold investments in dematerialised (demat) form.
- **Earlier SEBI Circular (Jan 12, 2024):** Previously, SEBI issued a circular prescribing deadlines for AIFs to transition their holdings to demat form, later incorporated in the Master Circular for AIFs (May 7, 2024, Chapter 21).
- **Current Relaxation (Feb 14, 2025):** SEBI has relaxed the timelines for AIFs to comply with the dematerialisation requirement.

Revised Timelines & Exemptions

New Investments (From 1.07.2025)

Any investment by an AIF on or after 1.07.2025, must be held only in demat form, whether acquired directly or from another entity.

Existing Investments (Before 1.07.2025)

Investments made before 1.07.2025, are exempt from the demat requirement, except in these cases:

- If the investee company is legally required to facilitate dematerialisation.
- If the AIF exercises control (alone or with SEBI-registered entities that must hold investments in demat form).

Deadline for Certain Investments (By 31.10.2025)

Investments falling under the above exceptions (mandatory dematerialisation cases) must be held in demat form by 31.10.2025

Exemptions from Demat Requirement

- AIF schemes ending on or 31.10.2025, including those with no further extensions.
- AIF schemes already in an extended tenure as of 14.02.2025.

Compliance & Enforcement

- The AIF's trustee/sponsor must ensure compliance via the Compliance Test Report (Chapter 15 of the Master Circular).
- The circular is effective immediately.

Under the revised framework, any investment made by an AIF on or after July 1, 2025, must be held only in demat form, irrespective of whether the investment is made directly in the investee company or acquired from another entity. However, investments made before this date are exempt from this requirement, except in specific cases. If the investee company is legally mandated to facilitate demat of its securities, or if the AIF, either alone or in conjunction with SEBI registered intermediaries, exercises control over the investee company, the investments must be converted into demat form

by October 31, 2025. Furthermore, SEBI has clarified that AIF schemes whose tenure

ends on or before October 31, 2025, or those that are already in an extended tenure as of February 14, 2025, are not required to transition to dematerialised holdings.

This relaxation provides AIFs with much-needed operational flexibility, allowing them additional time to comply with the dematerialisation requirement without disrupting their existing investment structures. The exemption of most pre-July 2025 investments from dematerialisation significantly reduces the compliance burden, making it easier for AIFs to manage their portfolios. In the long run, the move towards full dematerialisation will enhance transparency, security, and liquidity in AIF investments, benefiting both investors and market participants. However, AIF managers will need to ensure strict compliance with the new framework, particularly in reporting dematerialisation status through the Compliance Test Report, as mandated in Chapter 15 of the Master Circular.

While the relaxed timelines ease the transition, some challenges remain. AIFs that hold investments requiring mandatory dematerialisation under the new provisions must ensure compliance by October 31, 2025, which could create operational and financial strain. Additionally, funds nearing the end of their tenure may need to reassess their exit strategies to align with the regulatory requirements.

Impact on the AIF Ecosystem Positive Impacts

Operational Flexibility: The relaxation of timelines provides AIFs with more time to comply, preventing rushed dematerialisation.

Reduced Compliance Burden: Older investments (before July 1, 2025) are mostly exempt, reducing administrative challenges.

Improved Market Infrastructure: Over time, full dematerialisation will increase transparency, security, and liquidity in AIF investments.

Overall, SEBI's decision strikes a balance between regulatory enforcement and practical feasibility, allowing the AIF ecosystem to gradually transition towards a fully dematerialised investment framework while ensuring investor protection and market stability.