



भारतीय रिज़र्व बैंक  
RESERVE BANK OF INDIA



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RBI/2023-24/90

DOR.STR.REC.58/21.04.048/2023-24

December 19, 2023

All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks)  
All Primary (Urban) Co-operative Banks/State Co-operative Banks/ Central Co-operative Banks  
All All-India Financial Institutions  
All Non-Banking Financial Companies (including Housing Finance Companies)

**Investments in Alternative Investment Funds (AIFs)**

Regulated entities (REs) make investments in units of AIFs as part of their regular investment operations. However, certain transactions of REs involving AIFs that raise regulatory concerns have come to our notice. These transactions entail substitution of direct loan exposure of REs to borrowers, with indirect exposure through investments in units of AIFs.

2. In order to address concerns relating to possible evergreening through this route, it is advised as under:

- (i) REs shall not make investments in any scheme of AIFs which has downstream investments either directly or indirectly in a debtor company of the RE.

*Explanation: The debtor company of the RE, for this purpose, shall mean any company to which the RE currently has or previously had a loan or investment exposure anytime during the preceding 12 months.*

- (ii) If an AIF scheme, in which RE is already an investor, makes a downstream investment in any such debtor company, then the RE shall liquidate its investment in the scheme within 30 days from the date of such downstream investment by the AIF. If REs have already invested into such schemes having downstream investment in their debtor companies as on date, the 30-day period for liquidation shall be counted from date of issuance of this circular. REs shall forthwith arrange to advise the AIFs suitably in the matter.

- (iii) In case REs are not able to liquidate their investments within the above-prescribed time limit, they shall make 100 percent provision on such investments.

3. In addition, investment by REs in the subordinated units of any AIF scheme with a 'priority distribution model' shall be subject to full deduction from RE's capital funds.

*Explanation: 'Priority distribution model' shall have the same meaning as specified in the SEBI circular SEBI/HO/AFD-1/PoD/P/CIR/2022/157 dated November 23, 2022.*

4. These instructions have been issued in exercise of the powers conferred by the Sections 21 and 35A of the Banking Regulation Act, 1949 read with Section 56 of the Banking Regulation Act, 1949; Chapter IIIB of the Reserve Bank of India Act, 1934 and Sections 30A, 32 and 33 of the National Housing Bank Act, 1987.

5. The above instructions shall become effective immediately.

Yours faithfully,

(Vaibhav Chaturvedi)  
Chief General Manager