

SEBI DETAILS REGULATORY NORMS FOR SPECIAL SITUATION FUNDS (SSF) FOR INVESTMENT IN SPECIAL SITUATION ASSETS

In order to address the growing concerns of stressed assets, SEBI has introduced Special Situation Funds (SSF), a sub-category under Category I AIF, which shall invest in 'special situation assets'. Accordingly, amendments were carried out to SEBI (Alternative Investment Funds) Regulations, 2012 (**AIF Regulations**), effective from on January 24, 2022. Further to the introduction of certain regulatory provisions in the AIF Regulations, SEBI has now issued certain other regulatory and investment norms applicable to SSFs. The consolidated changes are analyzed below.

Amendment	Analysis / Explanation								
Introduction of SSFs as a sub-category under Category I AIFs	SSFs have been approved as a sub-category under Category I AIF, which will invest only in 'special situation assets' and may act as a resolution applicant under the Insolvency and Bankruptcy Code, 2016 (IBC). This will allow SSFs to participate in the resolution process contemplated under IBC.								
Permitted investments by SSFs Meaning of 'special situation assets'	<p>In order to drive focus of SSFs towards stressed assets, it has been specified that SSFs will invest only in special situation assets. Such assets include:</p> <ul style="list-style-type: none"> ▪ Stressed loans available for acquisition in terms of Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021 or as part of a resolution plan approved under IBC; ▪ Security receipts issued by Asset Reconstruction Companies (ARC); ▪ Securities of investee companies (i) whose stressed loans available for acquisition in terms of Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021 or as part of a resolution plan approved under IBC; (ii) against whose borrowings, security receipts have been issued by an ARC; (iii) whose borrowings are subject to corporate insolvency resolution process under Chapter II of IBC; (iv) who have disclosed all the defaults relating to the payment of interest/ repayment of principal amount on loans from banks / financial institutions; ▪ Any other asset/security as may be prescribed by SEBI from time to time. 								
Other features of SSF regulatory framework	<ul style="list-style-type: none"> ▪ Minimum Corpus: Each scheme of SSF shall have a corpus of at least INR 100,00,00,000 (Indian Rupees One Hundred Crores). ▪ Diversification norms: Diversification norms applicable to Category-I AIF will not apply to SSFs, unless specified otherwise. ▪ Minimum Investment: <table border="1"> <thead> <tr> <th>Category of investor</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>Any investor</td> <td>Not less than INR 10,00,00,000 (Indian Rupees Ten Crores)</td> </tr> <tr> <td>Accredited Investor</td> <td>Not less than INR 5,00,00,000 (Indian Rupees Five Crores)</td> </tr> <tr> <td>Employees or directors of the SSF or employees or directors of the manager of the SSF</td> <td>Minimum value of investment shall be INR 25,00,000 (Indian Rupees Twenty Five Lakhs)</td> </tr> </tbody> </table>	Category of investor	Amount	Any investor	Not less than INR 10,00,00,000 (Indian Rupees Ten Crores)	Accredited Investor	Not less than INR 5,00,00,000 (Indian Rupees Five Crores)	Employees or directors of the SSF or employees or directors of the manager of the SSF	Minimum value of investment shall be INR 25,00,000 (Indian Rupees Twenty Five Lakhs)
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	<ul style="list-style-type: none"> ▪ Restriction on investment: SSFs have been restricted from investing in (i) its associates, or (ii) units of any other AIF other than the units of an SSF, or (iii) units of SSFs managed or sponsored by its manager, sponsor or associates of its manager or sponsor; ▪ Eligibility norms under IBC: SSF intending to act as a resolution applicant under the IBC shall ensure compliance with the eligibility requirement provided thereunder.
<p>Investment by an SSF in the stressed loan acquired under Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021 (RBI Master Direction)</p>	<ul style="list-style-type: none"> ▪ SSF may acquire stressed loan in terms of clause 58 of RBI Master Direction upon inclusion of SSF in the respective Annex of the RBI Master Direction. ▪ Stressed loan acquired by SSF in terms of clause 58 of the RBI Master Direction shall be subject to a minimum lock-in period of six months. The lock in period shall not be applicable in case of recovery of the stressed loan from the borrower. ▪ SSF acquiring stressed loans in terms of the RBI Master Direction shall comply with the same initial and continuous due diligence requirements for its investors, as those mandated by RBI for investors in Asset Reconstruction Companies.

The aforesaid changes have been made vide the SEBI (Alternative Investment Funds) (Amendment) Regulations, 2022 dated January 24, 2022 ([available here](#)) read with SEBI Circular dated January 27, 2022 ([available here](#)).

We trust you will find this an interesting read. For any queries or comments on this update, please feel free to contact us at insights@elp-in.com or write to our authors:

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