

New Co-Investment Structure for AIFs Comes Into Effect

On September 09, 2025, the Securities and Exchange Board of India (“**SEBI**”) notified the SEBI (Alternative Investment Funds) (Second Amendment) Regulations, 2025 (the “**Sept 2025 Amendment**”) to amend the SEBI (Alternative Investment Funds) Regulations, 2012 (“**AIF Regulations**”). The Sept 2025 Amendment, *inter alia*, introduced the Co-investment Vehicle (CIV) route in the AIF Regulations, as per the decision taken by SEBI’s Board on June 18, 2025 (“**June Board Meeting**”). On the same day, SEBI also issued a circular bearing number SEBI/HO/AFD/AFD-POD-1/P/CIR/2025/126 (the “**Sept Circular**”), to detail the fine print of the regulations applicable to co-investments by investors in Category I and Category II Alternative Investment Funds (“**AIFs**”) through the CIV route.

Amendments to AIF Regulations

The Sept 2025 Amendment inserted Regulation 17A under the AIF Regulations, introducing the CIV route, which has been designed as a side-pool to the main scheme.

The key provisions of the *Sept 2025 Amendment relating to co-investments* are as follows:

- The definition of the term “Co-investment” has been revised to expressly restrict “co-investment” to investments in unlisted securities of investee companies. Before the Sept 2025 Amendment was notified, the definition “Co-investment” did not expressly restrict it to unlisted securities. However, under the Securities and Exchange Board of India (Portfolio Managers) Regulations, 2020 (“**SEBI PMS Regulations**”), the Co-investment Portfolio Manager is not allowed to invest the assets under management in listed securities of investee companies and so the legal position hasn’t actually changed.
- A definition of “Co-investment scheme” has been inserted in the AIF Regulations to cover schemes created by Category I or II AIFs to facilitate co-investment by investors in their schemes.
- Angel Funds are explicitly prohibited from launching co-investment schemes.
- A shelf placement memorandum must be filed with SEBI through a merchant banker, along with the prescribed fee of ₹1,00,000 before offering the co-investment opportunity to the investors, which details the governance, regulatory framework, and principal terms of the co-investment. An Annexure to the Sept 2025 Amendment provides a template of the shelf memorandum, setting out mandatory provisions such as the allocation methodology, expenses to be borne by the investment manager, that shall not be charged to the CIV Scheme, expenses to be borne by the CIV Scheme etc. In the consultation paper dated May 09, 2025, in which SEBI originally mooted the CIV route (“**SEBI May Consultation Paper**”), SEBI had proposed that a draft of the shelf placement memorandum would be required to be filed with SEBI at the time of filing the main AIF’s PPM with SEBI. It also proposed a green channel route of deemed approval for the shelf placement memorandum within 30 days of filing the PPM with SEBI. These proposals have not been included in either the June Board Meeting or in the Sept 2025 Amendment.
- The shelf placement memorandum for a CIV has to be filed through a merchant banker.
- A CIV is to be launched for each co-investment. In other words, a CIV may invest in only one investee company of the main AIF scheme.
- Only accredited investors of the AIF can co-invest in portfolio companies of the AIF through the CIV route. Investors who have been excused, excluded from an investment in a specific portfolio are not eligible to co-invest via the CIV route in such portfolio company. Investors who have defaulted in the main AIF scheme cannot co-invest either.
- Even though AIFs can invest in units of other AIFs, a CIV cannot do so.

- The terms of any co-investment cannot be more favourable to co-investors than those offered to the parent AIF itself. Further, exits by a CIV must be simultaneous with that of the AIF. Co-investment schemes shall be wound up upon exit from the investee company. To ensure transparency and investor protection, each CIV scheme must maintain a separate bank and demat accounts, and its assets must be segregated from other schemes of the AIF.
- The manager of an AIF shall not provide advisory services to any investor other than investors of a co-investment scheme or clients of a Co-investment Portfolio Manager, in relation to investments in securities of investee companies where the AIF has invested.
- Trustees/Sponsors of the AIF shall ensure that the compliance test report (as per Chapter 15 of the SEBI Master Circular for AIFs) confirms compliance with the provisions of the Sept Circular.

Exemptions: Co-investment schemes are exempt from Regulations 10, 11, 12, 13, 15, 16, and 17 of the AIF Regulations which prescribe requirements such as minimum corpus, the sponsor's or investment manager's continuing interest, mandatory disclosures, tenure etc.

As specifically stated in the minutes of SEBI's Board meeting held on June 18, 2025, the Co-Investment PMS licence route provided for by the SEBI PMS Regulations has been preserved.

ELP Comments

- *The formal notification of the Sept 2025 Amendment and the CIV route for co-investments will be welcomed by AIFs, especially since the Co-Investment PMS licence route has been preserved. The Co-Investment PMS licence route is available for investors who are not accredited investors.*
- *SEBI has not deviated from its insistence that only those who have already invested in an AIF can co-invest in the portfolio company of such AIF through co-investments, whether such co-investment be through the CIV route or the Co-Investment PMS Licence route.*
- *The prohibition under SEBI's framework on AIF managers providing advisory services to investors outside the CIV route is evidently meant to ensure that AIF managers do not circumvent SEBI's regulations relating to co-investment by facilitating co-investments through non-binding investment advice.*
- *Please find below a brief comparison of the costs involved for an AIF registered with SEBI to facilitate co-investments through the CIV route and the Co-Investment PMS Licence route.*
 - *Under the PMS Regulations, the investment manager of an AIF would have to incur the following costs to acquire a Co-Investment PMS Licence:*
 - *Application fee: INR 1,00,000*
 - *Registration fee: INR 10,00,000*
 - *Renewal Fee: INR 5,00,000 every three years*
 - *The CIV route would entail payment of a fee of INR 1,00,000 when filing the shelf placement memorandum.*
- *The Co-Investment PMS Licence route is undoubtedly more expensive, but it offers the following advantages:*
 - *Co-investment is available for investors who are not accredited investors.*
 - *The co-investors can stay invested in the portfolio company after the AIF has exited such portfolio company. Alternatively, they may even exit earlier. On the flipside, the investment manager is not required to obtain an exit for the co-investors from the portfolio company, unless agreed otherwise through contract.*
- *Please find below a brief comparison of SEBI's new CIV route with IFSCA's 'Framework to facilitate Co-investment by Venture Capital Scheme and Restricted Scheme' for co-investing through a special scheme:*
 - *Under IFSCA's regulations for co-investment, a fee of 7,500 USD (approx. INR 6,60,000) has to be paid every time a term sheet is filed for a co-investment. SEBI's fee for launching a CIV for a co-investment is only INR 1,00,000.*
 - *An IFSCA Special Scheme is a separate legal entity. A CIV launched by a SEBI registered AIF is not a distinct legal entity and is possibly not protected against third party claims against the main AIF.*

- *IFSCA allows co-investments to be made in both listed and unlisted securities, as well as in any investment made by the main scheme.*
- *SEBI does not permit a CIV to borrow or use any form of leverage. An IFSCA Special Scheme can borrow as well as use leverage within the overall leverage limits of the main scheme.*
- *Under SEBI AIF Regulations, only accredited investors can co-invest through the CIV route. Further, the co-investor should have invested in the main scheme. IFSCA allows persons who have not invested in the main scheme to invest in a special scheme, provided the main scheme has a 25% stake in the Special Scheme. Further, any person who meets the minimum contribution requirement (which is USD 250,000 for a Venture Capital Scheme and USD 150,000 for a Restricted Scheme) is allowed to participate in an IFSCA Special Scheme. The money invested in the Special Scheme will be counted towards the minimum contribution requirement.*

The SEBI (Alternative Investment Funds) (Second Amendment) Regulations, 2025 can be found [here](#).

The circular SEBI/HO/AFD/AFD-POD-1/P/CIR/2025/126 dated September 09, 2025 can be found [here](#).

The IFSCA circular dated 21 May, 2025 can be found [here](#).

The June Board Meeting can be found [here](#).

The May Consultation Paper can be found [here](#).

We hope you have found this information useful. For any queries/clarifications please write to us at insights@elp-in.com or write to our authors:

Vinod Joseph, Partner – Email - vinodjoseph@elp-in.com

Zaynali Badami, Associate – Email – zaynalibadami@elp-in.com

Saloni Khaitan, Advocate – Email - salonikhaitan@elp-in.com

Disclaimer: The information provided in this update is intended for informational purposes only and does not constitute legal opinion or advice.