

Modalities for migration to “AI -only Schemes” and relaxations for LVFs

The Securities and Exchange Board of India (Alternative Investment Funds) (Third Amendment) Regulations, 2025 (“Third Amendment”) amended the Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012 (‘AIF Regulations’) with effect from November 19, 2025 to introduce Accredited Investors only AIF schemes (AI-only Schemes). AI-only schemes are exempt from certain regulatory requirements and receive lesser regulatory protection. The Third Amendment had stated that AI-only Schemes include large value funds for accredited investors (“LVF”), thereby extending to LVFs the additional relaxations and operational flexibilities available to AI-only Schemes.

Pursuant to the Third Amendment, on December 08, 2025, SEBI issued a new circular (“Circular”) which spells out the modalities for migration (“Migration”) to AI only schemes and for availing of the relaxations that are available for LVFs. Some of the key conditions specified by the Circular for effecting Migration are as follows:

- Any new scheme proposed to be launched as an AI-only Scheme (For example, ‘XYZ AI only fund’) or as an LVF (For example, ‘ABC LVF’) shall have the words ‘AI only fund’ or ‘LVF’ added to the scheme name at the end.
- An existing AIF or the scheme of an AIF, which meets the eligibility criteria to be an AI-only Scheme or an LVF, may convert/ migrate to an AI-only Scheme or an LVF only after obtaining the positive consent from all its investors. Upon conversion, the investment manager of the AIF must
 - ensure that the name of the converted scheme has ‘AI only fund’ or ‘LVF’ at the end;
 - report such conversion and change in name of the scheme, within 15 days of the conversion:
 - to SEBI, by sending an email to aifreporting@sebi.gov.in; and
 - to depositories, for carrying out necessary changes in their systems.
- Paragraph 5 of the Circular states that if an investor is an Accredited Investor at the time of on-boarding into an AIF scheme, he/ she shall be reckoned as an Accredited Investor through the life of the scheme, even if he/ she were to lose such status in the interim.
- The Circular exempts LVFs from the following:
 - The obligation to follow the standard template for placement memorandum prescribed by SEBI;
 - Having to carry out an annual audit of the terms of the placement memorandum, without the need to obtain specific waivers from investors.

The aforementioned exemptions had been approved by SEBI’s board of directors at their board meeting held on September 12, 2025.

- Regulation 13(5) of the AIF Regulations states that an LVF can extend its tenure up to five years subject to the approval of two-thirds of the unit holders by value of their investment in the LVF. Regulation 13(5) also states that the extension in tenure of any existing scheme of a LVF shall be subject to such conditions as may be specified by SEBI from time to time. As mentioned above, any reference to an AI-only Scheme includes an LVF and so Regulation 13(5) applies to all AI-only Schemes. The Circular states that the maximum permitted extension of five years for AI-only Schemes (which includes LVF schemes) shall include any tenure extended, if any, prior to conversion to AI-only Scheme / LVF scheme.

ELP Comments

- Paragraph 5 of the Circular sets out rest an issue which has been discussed vehemently amongst stakeholders in the AIF ecosystem ever since SEBI started offering exemptions to Accredited Investors. Once an Accredited Investor invests in an AI-only Scheme or any other AIF, even if he/ she were to lose such status in the interim, the investor will be treated as an accredited investor, and the AIF does not have to modify its status on account of an investor ceasing to be an accredited investor. The solution offered by Paragraph 5 of the Circular is especially important for angel funds which are now allowed to accept only accredited investors.

- To become an accredited investor, a person needs to meet the net worth criteria given in Regulation 2(1)(ab) of the AIF Regulations and obtain an accreditation certificate from an accreditation agency. Such accreditation has to be renewed after every three years. It should be noted that SEBI has not scrapped the obligation to renew the accreditation every three years, even if a change in the investor's status will not have any impact on such investor or the AIF scheme in which such investor has invested.

The circular can be found [here](#).

The Third Amendment 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:

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