

SEBI's Informal Guidance on Broad Based Fund Requirements for AMCs Managing AIFs

UTI Alternatives Private Limited (**UAPL**), a wholly owned subsidiary of UTI Asset Management Company Ltd., the AMC of UTI Mutual Fund) acts as the Investment Manager for three Category II Alternative Investment Funds (**AIF**) registered with the Securities and Exchange Board of India (**SEBI**), namely UTI Emerging India Opportunities Fund, UTI SDOF Growth Theme Fund, and UTI Multi Opportunities Fund. Vide a letter dated January 1, 2026, UAPL sought an interpretative letter under the SEBI (Informal Guidance) Scheme, 2025, seeking clarity on the following issues under the SEBI (Mutual Funds) Regulations, 1996 (**MF Regulations 1996**) (now replaced by the SEBI (Mutual Funds) Regulations, 2026 (**MF Regulations 2026**)). The informal guidance issued by SEBI (**Informal Guidance**) resolves issues concerning the applicability of the 'broad-based fund' requirement prescribed under the SEBI MF Regulations 2026 to the management of AIFs by subsidiaries of Asset Management Companies (**AMCs**). In this article, we examine the legal framework, the questions posed, and SEBI's responses.

The statutory framework: Regulation 21(b) and 'broad based fund requirement'

Regulation 21 of the SEBI MF Regulations 2026, which re-enacts, without substantive modification, the erstwhile Regulation 24 of the MF Regulations 1996, imposes restrictions on the permissible business activities of an AMC. Regulation 21(b) of the SEBI MF Regulations 2026 prohibits an AMC from undertaking any business activity other than management and advisory services for pooled assets, including offshore funds, insurance funds, pension funds, and provident funds, or such categories of Foreign Portfolio Investors as may be specified by SEBI, subject to the condition that such activities do not conflict with the activities of the mutual fund and the various conditions given in the First Proviso to Regulation 21(b).

The Third Proviso to Regulation 24(b) further states as follows:

*"Provided further that the asset management company may, itself or through its subsidiaries, undertake portfolio management services and advisory services **for other than broad based fund** till further directions, as may be specified by the Board, subject to compliance with the following additional conditions:- (i) it satisfies the Board that key personnel of the asset management company, the system, back office, bank and securities accounts are segregated activity wise and there exist system to prohibit access to inside information of various activities; and (ii) it meets with the capital adequacy requirements, if any, separately for each of such activities and obtain separate approval, if necessary under the relevant regulations"*

Regulation 2(f) of the SEBI MF Regulations 2026 (formerly the Explanation to Regulation 24(b) of the MF Regulations 1996) defines a broad-based fund as one that has at least twenty investors, with no single investor holding more than twenty-five per cent of the corpus of the fund.

Issues raised by UAPL and SEBI's Responses

Query 1: Regulation 21(b) of the MF Regulations, 2026 permits an AMC (or its subsidiaries) to undertake management and advisory services only to "pooled assets" (including AIFs). Is it necessary for such "pooled assets" to meet the broad-based fund requirement (minimum 20 investors and no single investor holding more than 25% of the corpus)?

SEBI's Response: Yes, the broad-based fund requirement does apply to management/advisory services rendered by UAPL to pooled assets. Since AIFs are privately pooled investment vehicles under the Securities and Exchange Board of India

(Alternative Investment Funds) Regulations, 2012 (**AIF Regulations**), the 'broad-based fund' criteria explicitly apply to such services.

Query 2: Should compliance with the 'broad-based fund' criteria be checked at the overall fund level or at the individual scheme level?

SEBI's Response: Compliance must be assessed at the individual scheme level. Regulation 10 of the AIF Regulations treats each scheme of an AIF as a distinct investment vehicle (for investor limits, corpus, etc.). Therefore, the 'broad-based fund' requirement under the MF Regulations is evaluated scheme-wise.

Query 3: In a master-feeder structure, is it sufficient if only the master fund meets the 'broad-based fund' criteria (since feeder funds do not undertake independent investments and active management occurs only at the master level)?

SEBI's Response: No. Each fund/scheme (whether master or feeder) to which the AMC or its subsidiary provides management/advisory services must independently satisfy the 'broad-based fund' requirement. Even though feeders may not make standalone investment decisions, they are treated as separate investment vehicles under the AIF Regulations.

Query 4: Does the exemption available for certain Foreign Portfolio Investors (FPIs) under the Master Circular for Mutual Funds (paragraph 17.3 dated June 27, 2024; now paragraph 22.2 of the March 20, 2026, circular) extend to appropriately regulated domestic entities such as banks, insurance companies, and provident fund trusts, on a look-through basis?

SEBI's Response: No. The exemption applies only to specific categories of FPIs explicitly listed in the Master Circular. Domestic regulated entities (Indian banks, insurance companies, PF trusts, etc.) operate under separate domestic regulatory frameworks and do not fall within the FPI regime. Therefore, they do not qualify for this exemption, even on a look-through basis.

ELP Comments

- *The MF Regs 2026 do not define 'pooled assets', but the usage of this term in Regulation 21(b) of the MF Regulations, 2026 is followed by an inclusive set of examples of pooled assets, namely, offshore funds, insurance funds, pension funds, provident funds and foreign portfolio investors of such categories as may be specified by SEBI. The MF Regs 2026 defines 'broad-based fund' to mean a fund which has at least twenty investors and in which no single investor holds more than twenty-five per cent of the corpus of the fund.*
- *The term 'broad-based fund' is used only once in the MF Regulations, 2026, namely in the Third (and Penultimate) Proviso of Regulation 21(b) of the MF Regulations, 2026, in the following manner:*

"Provided further that the asset management company may, itself or through its subsidiaries, undertake portfolio management services and advisory services for other than a broad-based fund till further directions, as may be specified by the Board, subject to compliance with the following additional conditions:"

From a plain reading of this proviso, it is clear that there is either a grammatical mistake in this proviso or one or more words are missing. For the sake of argument, we have inserted one word in this proviso, so that it reads as follows:

*"Provided further that the asset management company may, itself or through its subsidiaries, undertake portfolio management services and advisory services for **funds**, other than broad-based **funds**, till further directions, as may be specified by the Board, subject to compliance with the following additional conditions:"*

With the insertion of the word “funds” in the third line of this proviso, Regulation 24(b) would be interpreted as follows. AMCs and their subsidiaries may provide management and advisory services to “pooled assets” which are ‘broad-based funds’ subject to the conditions given in the First Proviso to Regulation 21(b). If a pooled asset is not a ‘broad-based fund’, then an AMC or its subsidiary may still provide such a pooled asset with management and advisory services subject to (i) the conditions given in the First Proviso to Regulation 21(b) and (ii) the conditions given in the Third Proviso to Regulation 21(b), until further directions are specified by SEBI.

- *The Informal Guidance given by SEBI does not clarify that any word(s) is missing from the Third (and Penultimate) Proviso of Regulation 21(b) of the MF Regulations, 2026, even though it is obvious that one or more words are indeed missing. If word/s are not missing, then SEBI’s interpretation in its Informal Guidance would tantamount to the creation of a new regulation. It should be noted that*
- *SEBI’s response to query no. 2 is logical and a natural corollary to its first response. Under the AIF Regulations, it is possible to launch as many schemes as one wishes to under a single fund/AIF, provided all such schemes are of the same category as the fund, which is usually a trust. So, compliance with the ‘broad-based fund’ requirement has to be at the scheme level.*
- *SEBI’s response to query no 3 is also a matter of interpretation, and it is possible for SEBI to have taken a different view, namely that, if an AMC provides management or advisory services to a master fund, it is irrelevant if the feeder funds of such master fund meet the ‘broad-based fund’ criteria or not.*

The letter dated January 1, 2026, sent by UAPL to SEBI can be found [here](#).

SEBI’s response to UAPL 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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