

SEBI has introduced a new sub-category of Category-I Alternative Investment Fund (“AIF”), a *special situation fund*, that invest in *special situation assets* and are permitted to act as a resolution applicant under the Insolvency and Bankruptcy Code, 2016 (“IBC”)

## *Special Situations Alternative Investment Funds*

### Permissible Investments

- Stressed loan available for acquisition, as per (i) Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021 (“**Master Directions**”); or (ii) any other applicable policy of the RBI or Government of India or (iii) as part of a resolution plan approved under IBC.
- *Security receipts* issued by an Asset Reconstruction Company (“**ARC**”);
- Securities of investee company whose stressed loans are available for acquisition as per (i) Master Directions; or (ii) any other applicable policy of the RBI or Government of India or (iii) as part of a resolution plan approved under IBC.
- Securities of investee company against whose borrowings, *security receipts* have been issued by an ARC.
- Securities of investee company whose borrowings are subject to *corporate insolvency resolution process* and its credit rating has been *downgraded to “D”* or equivalent.
- Securities of investee company who *have disclosed all defaults* relating to its debt under applicable laws, and such payment default is *continuing for a period of at least 90 days* after the occurrence of such default and its credit rating has been *downgraded to “D”* or equivalent.

*This Update is meant for general information and shall not be deemed to be a legal advice or opinion. This Update is neither intended to be an advertisement or solicitation.*

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### **Investment Conditions**

- The *corpus* for each scheme of a special situation fund and *value of investment to be accepted from investors* would be specified by SEBI.
- Special situation funds are not permitted to accept investments from *any other AIF other than a special situation fund*.

### **Investment Restrictions**

- A special situation fund is not permitted to invest in: (i) its associates; (ii) units of any other AIF (other than units of a special situation fund); or (iii) units of special situation funds managed or sponsored by its manager, sponsor or associates of its manager or sponsor.
- Stressed loan acquired by a special situation fund as per terms of the Master Directions would be subject to a *lock-in period*, as may be specified by SEBI.

### **Registration**

An applicant may apply for registration as a special situation fund in accordance with the provisions of the AIF Regulations.

*The aforementioned was notified vide SEBI (Alternative Investment Funds) (Amendment) Regulations, 2022 dated January 24, 2022 ([available here](#)).*

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