

**CIRCULAR**

HO/19/34/11(2)2026-AFD-POD1//13764/2026

June 16, 2026

To,

**All Alternative Investment Funds (AIFs)**

**All Venture Capital Funds (VCFs) registered under erstwhile SEBI (Venture Capital Funds) Regulations, 1996**

Sir/Madam,

**Sub: Guidelines for winding up of AIFs with respect to retention of proceeds and 'Inoperative Fund' status**

1. SEBI (Alternative Investment Funds) Regulations, 2012 ("AIF Regulations") have been amended and notified on [April 18, 2026](#) to provide certain flexibility to AIFs with respect to winding up of their schemes and surrender of registration.
2. Regulation 29 of AIF Regulations states, *inter-alia*, the following with respect to winding up –
  - 2.1. Regulation 29(7) - Within the liquidation period, the assets shall be liquidated, and the proceeds accruing to investors in the AIF or the scheme of the AIF shall be distributed to them after satisfying all liabilities, subject to conditions as may be specified by SEBI from time to time.
  - 2.2. Regulation 29(10A) - An AIF may be tagged as an inoperative fund, in such manner and subject to conditions as may be specified by SEBI from time to time.
  - 2.3. Regulation 29(11) - Upon winding up of the AIF, the certificate of registration shall be surrendered to SEBI.

The conditions and modalities with respect to retention of proceeds beyond permissible fund life, tagging as 'Inoperative Fund' and surrender of registration are being specified in this circular.

### **Retention of proceeds beyond permissible fund life**

3. AIFs/schemes of AIFs may retain liquidation proceeds beyond the liquidation period or dissolution period (*beyond “permissible fund life”*), as applicable, subject to satisfying at least one of the following conditions –
  - 3.1. Demonstrable receipt of a litigation notice or demand by the AIF/scheme of AIF, which includes any official written communication from a tax authority, regulatory authority, law enforcement agency, court of law, or from an investor or counterparty in relation to litigation, which indicates a potential tax, regulatory or legal liability. This shall include show-cause notices, re-assessment notices, investigation summons, or similar communications and shall not be restricted to crystallised demand notices;
  - 3.2. Consent obtained from at least seventy-five percent of the investors by value of their investment in the scheme, in cases where proceeds are proposed to be retained on account of anticipated liabilities arising due to a possible/probable litigation or tax demand;
  - 3.3. Substantiation of amounts retained for meeting residual winding up related operational expenses, through invoices, supporting documents or records of comparable expenses incurred in previous years.
4. In cases where monies are being retained on account of anticipated liabilities as specified in paragraph 3.2 above, the manager of AIF shall disclose the amount being retained and estimated time period for which it is proposed to be retained to the investors of the fund while seeking their consent for retention.
5. In cases where monies are being retained for meeting residual winding up related operational expenses as specified in paragraph 3.3 above, the time period for such retention shall not exceed three years from the end of permissible fund life of the AIF/scheme of AIF. Further, the implementation standards for standardising the operational heads under which monies may be retained, shall be formulated by Standard Setting Forum of AIFs ('SFA'), in consultation with SEBI.

6. All monies retained in line with conditions at paragraph 3 above shall be invested in accordance with Regulation 15(1)(f) of the AIF Regulations.
7. Once the liabilities are satisfied and the pending retained monies are distributed to the investors of the fund, the scheme shall be wound up in terms of Regulation 29 of AIF Regulations.

#### **Application for 'Inoperative Fund' status**

8. An AIF having one or more schemes with retained monies as specified in paragraph 3 above and intending to surrender its registration, may apply for obtaining the 'Inoperative Fund' status. The application shall be submitted to SEBI in the format as specified in **Annexure A**, by emailing to [inoperativeaif@sebi.gov.in](mailto:inoperativeaif@sebi.gov.in).
9. An AIF whose scheme(s) have not retained any monies beyond the permissible fund life, but intending to continue with the registration solely in anticipation of a favourable outcome of a pending litigation, may also apply for obtaining the 'Inoperative Fund' status.
10. Upon approval of the aforesaid application, the applicant AIF will be tagged as 'Inoperative Fund'.
11. Such Inoperative Fund shall apply to SEBI for surrender of its certificate of registration only after the liabilities are satisfied and the pending retained monies are distributed to the investors in all its schemes.

#### **Regulatory framework applicable to 'Inoperative funds'**

12. An AIF tagged as 'Inoperative Fund' shall be subject to the following conditions, with effect from the date of obtaining the tag –
  - 12.1. The monies retained by scheme(s) of such AIF in terms of paragraph 3 above, shall be invested in accordance with Regulation 15(1)(f) of the AIF Regulations;
  - 12.2. No new scheme shall be launched under the AIF; and,

12.3. No management fees shall be charged in respect of any of its scheme(s).

13. The regulatory requirements as specified in **Annexure B** shall not be applicable to AIFs tagged as 'Inoperative Funds'.
14. AIFs having schemes which have retained monies in terms of paragraph **3** above and AIFs tagged as 'Inoperative Funds' shall submit an annual status report on retained monies and outstanding liabilities to SEBI and to investors of the relevant scheme(s), in the format as given at **Annexure C** of this circular. The report shall be submitted on **SEBI Intermediary portal** within 30 calendar days from the end of March of every financial year.

#### **Applicability to erstwhile Venture Capital Funds**

15. The aforesaid facility of retention of proceeds beyond permissible fund life and availing Inoperative Fund status shall also be applicable to Venture Capital Funds registered under erstwhile SEBI (Venture Capital Funds) Regulations, 1996. The regulatory framework applicable to such VCFs tagged as 'Inoperative Funds' shall be the same as applicable to AIFs, stated in para **12** to **14** above.
16. This circular shall come into force with immediate effect.
17. This circular is issued with the approval of the competent authority.
18. This circular is issued in exercise of powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992 read with Regulation 29 and Regulation 36 of SEBI (Alternative Investment Funds) Regulations, 2012, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.
19. The circular is available on SEBI website at [www.sebi.gov.in](http://www.sebi.gov.in) under the categories "Legal → Circulars" and "Info for → Alternative Investment Funds".
20. The [SEBI Master Circular for AIFs dated June 03, 2026](#) has also been updated with the provisions of this circular. The updated Master Circular for AIFs is available on

SEBI website at [www.sebi.gov.in](http://www.sebi.gov.in) in the path "Legal → Master Circulars" and "Info for → Alternative Investment Funds".

Yours faithfully,

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Enclosures: As above

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**Information to be submitted while filing application for 'Inoperative Fund' status**

<b>S. No.</b>	<b>Particulars</b>	<b>Details</b>
<b>Part A - Details of AIF</b>		
1.	Name of the AIF	
2.	Category of the AIF	
3.	Registration Number of the AIF	
4.	Name of the trustee	
5.	Name of the Sponsor	
6.	Name of the Manager	
7.	No. of schemes launched under the AIF	
8.	No. of schemes where proceeds have been retained to meet liabilities	
<b>Part B - Details of schemes of AIF</b>		
(Information shall be submitted at scheme level, separately for each scheme of the AIF)		
9.	Name of scheme	
10.	Date of initial closing of the fund (dd/mm/yyyy)	
11.	Date of final closing of the fund (dd/mm/yyyy)	
12.	Tenure of the fund (in years, as disclosed in PPM of the fund)	
13.	Extension of tenure availed, if any (in years)	
14.	Dissolution period availed, if any (from dd/mm/yyyy to dd/mm/yyyy)	
15.	End Date of permissible fund life (end of liquidation period or dissolution period as applicable in dd/mm/yyyy format)	
16.	Corpus of the scheme (in INR Crore)	

S. No.	Particulars	Details
17.	Cumulative investments made by the scheme (at Cost, in INR Crore)	
18.	Date of liquidation of last investment of the scheme (in dd/mm/yyyy format)	
19.	Liquidation proceeds accrued to the fund (in INR Crore)	
20.	Liquidation proceeds distributed to the investors (in INR Crore)	
21.	Date of payment of last tranche of proceeds to investors (aside from proceeds retained) (in INR Crore)	
22.	Liquidation proceeds retained by the fund (in INR Crore)	
23.	Winding up of the fund on account of -	a) Tenure of the fund as mentioned in PPM is over; or, b) Opinion of trustee that the fund be wound up in the interest of the investors c) Resolution for winding up, by seventy five percent of the investors by value of their investment in the fund
24.	Amounts retained/'Inoperative fund' status sought on account of -	a) Pending litigation or tax / regulatory demand (Demonstrable Receipt/Official communication to be enclosed) b) Anticipated litigation or tax demand (Document recording the details of investor consent obtained to be enclosed)

S. No.	Particulars	Details
		c) Residual operational expenses (Supporting invoices / comparable expense statement from previous years to be enclosed) d) No retained monies; continuing with registration solely in anticipation of favourable litigation outcome (Supporting documents in form of notices/official communication to be enclosed)
25.	Expected timeline for resolution and distribution of any pending retained amount to investors (End date in form of dd/mm/yyyy)	
26.	Proposed instruments for investment of retained monies	
27.	Details of pending enforcement actions	

**Part C - Undertaking to be submitted by the Manager of the AIF**

1. The information supplied in this application for obtaining Inoperative Fund for [Name of AIF], including the attachment sheets, is complete and true. The Manager of the AIF [Name of AIF] has exercised due diligence with respect to the claims made in this application.
2. The scheme(s) [Names of scheme(s)] of the AIF has completed its investment activity and all the assets/investments of the scheme(s) have been liquidated.
3. The monies retained are solely on account of [specify applicable ground(s): pending litigation/tax demand | anticipated litigation/tax demand with investor consent | residual operational expenses | anticipation of favourable litigation outcome], and supporting documentation is enclosed.
4. No new scheme shall be launched and no management fees shall be charged from the investors from the date of obtaining Inoperative Fund status.

S. No.	Particulars	Details
	<p>5. The retained monies shall be invested only in accordance with Regulation 15(f) of the AIF Regulations.</p> <p>6. An annual status report shall be submitted to SEBI and to the investors of the relevant scheme(s) until all liabilities are resolved and a NIL bank balance is achieved.</p> <p>7. The retention proceeds pending after meeting the liabilities and any proceeds received pursuant to a favourable litigation outcome, shall be distributed to the investors of the fund in accordance with terms of its PPM.</p> <p>For and on behalf of [Name of Manager], manager of [Name of AIF]</p> <p>Authorized signatory</p>	
	<p align="center"><b>Part D - Undertaking to be submitted by the Trustee / Board of Directors/ Designated Partners of the AIF (as applicable depending on the form of AIF)</b></p> <p>We, [Name of entity], trustee/Board of Directors/Designated Partners of the AIF, have reviewed the circumstances of [Name of the AIF] and we are satisfied that the application for 'Inoperative Fund' status is bona fide in nature and the amounts retained, if any, are solely on account of the ground(s) specified in the application.</p> <p>For and on behalf of [Name of Entity], trustee/Board of Directors/Designated Partners of [Name of AIF]</p> <p>Authorized signatory</p>	

**Exemption from certain regulatory requirements for Inoperative Fund**

S. No.	Regulatory requirements	Effective date of non-applicability
1.	Limited Quarterly Activity Report and Annual Activity Report (Para 21.1 under <a href="#">Chapter 21 of SEBI Master Circular for AIFs dated June 03, 2026</a> ('AIF Master Circular'))	Limited Quarterly Activity Report - From the quarter subsequent to the quarter in which the AIF is tagged as Inoperative Fund Annual Activity Report - From the Financial Year subsequent to the Financial Year in which the AIF is tagged as Inoperative Fund
2.	Audit of terms of PPM (Para 21.3 under <a href="#">Chapter 21 of AIF Master Circular</a> )	From the Financial Year subsequent to the Financial Year in which the AIF is tagged as Inoperative Fund.
3.	Intimation of changes in PPM (Para 21.4 under <a href="#">Chapter 21 of AIF Master Circular</a> )	
4.	Compliance Test Report (CTR) (Para 21.2 under <a href="#">Chapter 21 of AIF Master Circular</a> )	
5.	Reporting of information, including scheme-wise valuation and cash flow data to the Benchmarking Agencies for performance benchmarking ( <a href="#">Chapter 22 of AIF Master Circular</a> )	
6.	NISM certification requirement for the key investment team of the fund (Regulation 4(g)(i) of AIF Regulations)	
7.	Requirement of custodian for safekeeping of securities of AIF	Date of obtaining Inoperative Fund status

S. No.	Regulatory requirements	Effective date of non-applicability
	(Regulation 20(11) of AIF Regulations)	
8.	Periodic disclosure to investors regarding fund investments in terms of Regulation 22(a) of AIF Regulations	Date of obtaining Inoperative Fund status
9.	Annual (Category I and II AIFs) /Quarterly reports (Category III AIFs) to investors in terms of Regulation 22(g) and 22(h) of AIF Regulations	From the Financial Year/Quarter subsequent to the Financial Year/Quarter in which the AIF is tagged as Inoperative Fund.
10.	Valuation of investments of AIFs (Regulation 23(2) and 23(3) of AIF Regulations)	Date of obtaining Inoperative Fund status – The valuation shall be reported to investors as part of annual retention status report and accordingly, the updated Net Asset Value of the AIF units shall also be reported to depositories within 30 calendar days from the end of March of every financial year.

**Format for Annual Retention Status Report**

*(To be submitted to SEBI and investors within 30 calendar days from the end of March of every financial year)*

**Details of AIF and its scheme(s)**

S. No.	Information related to	Particulars	Details
1.	Details of AIF	a) Name of the AIF	
		b) Category of the AIF	
		c) Registration Number	
		d) Date of obtaining 'Inoperative Fund' status (If applicable)	
2.	Details of scheme(s) with retained monies*	a) Name of the scheme(s)	
		b) End date of permissible fund life (end of liquidation period or dissolution period as applicable in dd/mm/yyyy format)	
		c) Reason(s) for non-winding up of scheme before end of permissible fund life (Provide specific reason for non-winding up/retention of proceeds)	
		d) Amounts retained/'Inoperative fund' obtained on account of –	(i) Pending litigation or tax / regulatory demand (Demonstrable Receipt/Official

S. No.	Information related to	Particulars	Details
		(Choose one of the options given herein)	<p>communication to be enclosed)</p> <p>(ii) Anticipated litigation or tax demand (Document recording the details of investor consent obtained to be enclosed)</p> <p>(iii) Residual operational expenses (Supporting invoices / comparable expense statement from previous years to be enclosed)</p> <p>(iv) No retained monies; continuing with registration solely in anticipation of favourable litigation outcome</p>
		e) Total amount retained (in INR)	
		f) Amount distributed as on date to investors out of the retained amount (in INR)	
		g) Amount retained as on reporting date (in INR)	

S. No.	Information related to	Particulars	Details
		h) Present status of the reason(s) mentioned at row (c) above	
		i) Expected timeline for resolution (in dd/mm/yyyy)	

Note - \*Scheme wise information to be provided separately.

**Details of investment made with monies retained in terms of regulation 15(f) of AIF Regulations**

S. No.	Name of Scheme *	Name of Instrument/Investee Company [Refer Note 1]	Cost of Holding as at the end of the reporting period (Rs. Cr) [Refer Note 2]	Latest Value of Holding as at the end of the reporting period (Rs. Cr) [Refer Note 3]	Type of Security [Refer Note 4]	Provide details, if Type of Security chosen is 'Others'

Note 1: Each Mutual Fund Scheme, T-bill, G-sec etc. should be stated separately.

Note 2: Cost of temporary investments held as at the end of the reporting period is to be provided

Note 3: Valuation considered for calculation of Scheme's latest NAV is to be provided.

Note 4: Liquid Mutual Fund, Other than Liquid Mutual Funds, Bank deposits, T-bills, TREPS, CPs, CDs and Others