

SEBI AIF Amendment Regulations 2026

Inoperative Fund Classification, Regulation 29 Changes, and What AIF Managers Must Do Now

SEBI

AIF

ALTERNATIVE INVESTMENT FUNDS

REGULATION UPDATE

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The Three Changes at a Glance

The SEBI (Alternative Investment Funds) (Amendment) Regulations 2026 make three structural changes to the parent 2012 AIF Regulations — each with distinct operational implications for fund managers, trustees, and investors.

3

Regulation Amendments

Structural changes to the 2012 AIF Regulations

1

New Classification

Inoperative Fund framework introduced

2

Regulations Rewritten

Reg 10(c) and Reg 29 substantially amended

Regulation	Status	What Changed
Reg 10(10A)	NEW	Framework for "Inoperative Fund" classification introduced
Reg 10(c)	AMENDED	Threshold revised from "two lakh" to "one thousand"
Reg 29	AMENDED	Distribution now subject to future SEBI conditions

 All three amendments are effective from the date of Gazette publication — April 21, 2026.

Inoperative Fund: The New Category

Regulation 10(10A) creates a legal hook — SEBI can now tag an AIF as "inoperative" subject to conditions it will specify by circular. The amendment establishes the enabling provision; the operational criteria will follow.

Legal Framework

Amendment creates the enabling provision. Actual criteria will come via operational circular from SEBI. The regulation itself is the skeleton; the circular will be the flesh.

Predicted Criteria

Based on the Companies Act 2013 dormant regime: no fresh commitments, no new investments, no distributions for **12 to 24 months** continuous period.

Lighter Compliance

Quarterly filings likely replaced with annual declarations. Auto-reversal upon resumption of activity — funds can exit inoperative status when activity resumes.



Regulation 29: Distribution Under Living Rules

Distribution of investment proceeds is now expressly subject to conditions specified by SEBI from time to time. This transforms Regulation 29 from a static text into a living mechanism — one that SEBI can update without amending the regulations themselves.

Before the Amendment


Static regulatory text governed distribution. Fund managers could rely on fixed language in PPMs and side letters without anticipating regulatory evolution.

- Fixed distribution waterfall language
- No mechanism for mid-life updates
- PPMs drafted once, rarely revisited

After the Amendment

Distribution is now subject to SEBI conditions issued from time to time. Fund documents must be forward-looking and adaptive.

- Living mechanism updated by circular
- PPMs and side letters need forward-looking clauses
- MFN provisions must account for regulatory change

 SEBI can now update distribution rules without amending the regulations themselves. Fund managers must build clauses that accommodate future SEBI conditions — failure to do so creates document risk.

Who Is Impacted

The 2026 Amendment touches every layer of the AIF ecosystem — from fund managers drafting documents to portfolio companies assessing upstream risk.



AIF Managers (Cat I, II, III)

- Update PPMs with risk factors and Reg 29 forward-looking clauses
- Draft internal protocol to identify potential inoperative funds
- Update investor reporting templates with inoperative-status field



Trustees

- Receive compliance note from Investment Manager
- Table the 2026 Amendment compliance note at next trustee meeting
- Document fiduciary review in board minutes



LPs, Portfolio Companies & Sponsors

- LPs: Side letters and MFN clauses need protective updates
- Portfolio companies: Check if upstream AIF could be tagged inoperative within 12 months
- Sponsors: Restate sponsor commitment letters referencing Reg 10 and Reg 29



Document Updates Required

Six categories of fund documents require immediate review and updating. Begin this process now — before the operational circular drops — to avoid a reactive scramble.



Private Placement Memorandums

Addendum disclosing 2026 Amendment. Risk-factor paragraph on inoperative-fund tagging. Reg 29 forward-looking clause.



Investor Side Letters

Review MFN clauses. Flag hard-coded distribution mechanisms. Engage LP counsel for consent where needed.



Sponsor Commitment Letters

Restate references to Regulation 10 and Regulation 29. Update continuing interest disclosures accordingly.



Quarterly Reporting Templates

Add "Inoperative Fund Status (Y/N)" field. Build into fund administrator systems now before the next cycle.



Trustee Meeting Agendas

One-page compliance note summarizing three changes and expected operational circular for trustee review.



Board Minutes

Document inoperative-status assessment for funds near term end. Create a formal record of fiduciary diligence.

8-Step Compliance Checklist

A structured action plan for AIF managers to execute immediately. Begin with internal circulation and build toward a fully updated compliance posture before the operational circular arrives.

01

Read & Circulate

Read full SEBI Amendment text from Gazette; circulate internally within **7 days**

03

Update PPMs

Update PPMs with risk factor paragraph and Reg 29 forward-looking clause

05

Brief Trustees

Brief trustees; table compliance note at next meeting and document fiduciary review

07

Map Fund Lifecycle

Map fund lifecycle; assess inoperative status risk for funds approaching term end

02

Draft Internal Protocol

Draft provisional internal protocol for potential inoperative AIFs (no commitments, investments, distributions for 12+ months)

04

Update Reporting Templates

Add "Inoperative Fund Status (Y/N)" to quarterly reporting templates and fund administrator systems

06

Review Side Letters

Review side letters; flag distribution clauses needing LP consent and engage counsel

08

Monitor SEBI Circulars

Subscribe to SEBI Legal Framework and Circulars page; monitor **weekly** for the operational circular

Timeline & Next Actions

The clock started on April 21, 2026. Managers who begin preparation now will be positioned to execute the moment the operational circular drops — those who wait will spend their first 30 days reacting.



⚠ Critical Reminder: Managers who begin preparation NOW will execute when the circular drops. Managers who wait will spend the first 30 days reacting — a costly disadvantage in a compliance-driven environment.

For strategy support on PPM refresh, side-letter review, and AIF compliance calendar updates — **A S Banka Advisors Private Limited** | CA Adityavikram Banka, Founder