

SEBI Board Meeting proposals for asset managers and investors:

A breath of fresh air!

20 June 2025

Introduction

In the board meeting held on 18 June 2025 (Board Meeting), the Securities and Exchange Board of India (SEBI) introduced a series of reforms to facilitate ease of doing business and align regulatory provisions to the evolving market needs across the Alternative Investment Funds (AIFs), Venture Capital Funds (VCFs), Portfolio Management Services (PMS) and Foreign Portfolio Investors (FPI) ecosystem. Several consultation papers towards this end were commissioned by SEBI especially post the leadership change, but in a clear demonstration of urgency to carry out the necessary changes in relation to the asks of the industry, SEBI has approved these proposals.

While a comprehensive analysis and impact assessment will follow once the final amendments are articulated in the respective regulatory framework, SEBI has showcased a clear sign of regulatory responsiveness to the needs of the industry. This newsflash update provides key highlights and directional changes that were approved during the Board Meeting.

1. Introduction of co-investment scheme for granting flexibility of co-investments to AIFs

It has been a long-standing industry demand to ease the current co-investment framework from an operational standpoint. The extant framework requires the investment manager of the AIF to have a separate portfolio manager license in order to offer investors of Category I and II AIFs to participate in co-investment opportunities through a co-investment portfolio management route, which presented substantial operational issues in the form of dual registration and compliance under both the SEBI (Alternate Investment Funds) Regulations, 2012 (AIF Regulations) and the SEBI (Portfolio Managers) Regulations, 2020 (PMS Regulations) and divergence from global best practices. To address the ongoing challenges, a consultation paper was released by SEBI proposing a new co-investment framework for Category I and Category II AIFs facilitated by co-investment scheme. Apropos the consultation paper, SEBI in its Board Meeting approved Category I / II AIFs to facilitate co-investment through the Co-Investment Scheme (CIV Scheme) to accredited investors of the AIF. The CIV Scheme will be subjected to certain relaxations in terms of regulatory and compliance requirements obligations under the AIF Regulations. The portfolio management route continues to remain an alternative route in addition to the CIV Scheme route.

2. Settlement aid to Migrated VCFs for delayed winding up

SEBI has approved a one-time settlement scheme for Venture Capital Funds (VCFs) who: (i) have not wound up their schemes within the prescribed timelines; and (ii) have completed the migration to the AIF regime. The settlement amount comprises the following:

- (a) INR 1,00,000 for delay of up to 1 year in winding up the scheme and INR 50,000 for every subsequent year of delay; and
- (b) An amount (based on a slab-wise structure) ranging from INR 1 lakh to INR 6 lakhs depending on the cost of unliquidated investments at the time of application for migration.

Applications for availing the scheme must be submitted by or before 19 January 2026, and the settlement amount and all related expenses will have to be borne solely by the investment manager / sponsor of the VCF.

3. Rationalisation of Angel Funds framework

Apropos SEBI's consultation paper on revamping the Angel Fund framework, SEBI has introduced substantial regulatory changes in the Angel Funds ecosystem. One of the most important changes introduced in the Board Meeting is the permissibility to offer investment opportunity in Angel Funds to only Accredited Investors (AIs). Angel Funds are risky ventures and merits investment only from high-risk taking investors. While the existing framework though had a threshold for eligible investors, it lacked the verification for compliance with that threshold. Recognising this, SEBI has allowed only the AIs to invest in Angel Funds given their sound risk appetite and independent verification of status. Earlier investments made by non-AIs will be grandfathered, and a one-year transition period has been prescribed for full implementation of these measures.

Providing flexibility to the AIs, the framework also provides following relaxations to give a kick-start to the AI ecosystem:

- (a) Minimum investment quantum by Angel Fund in a portfolio company stands reduced from INR 25 lakh to INR 10 lakh;
- (b) Maximum investment per investee company raised from INR 10 crore to INR 25 crore;
- (c) Sponsor commitment reduced to INR 50,000 or 0.5% of corpus, whichever is higher, in each investment of the Angel Fund;
- (d) Removal of concentration cap of 25% per investee company;
- (e) Flexibility to have more than 200 AIs in an investment by the Angel Fund;
- (f) Follow-on investments allowed in portfolio companies that are no longer categorised under the definition of "start-ups";

4. Relaxation for FPIs investing only in Government Securities (G-Secs)

With the aim of enhancing ease of doing business, SEBI approved certain relaxations for all existing and prospective FPIs that exclusively invest in G-Secs (GS-FPIs). The Board has approved the following relaxations for GS-FPIs:

- (a) The periodicity of mandatory Know Your Customer (KYC) review for GS-FPIs will be harmonised with the Reserve Bank of India's (RBI) requirements. GS-FPIs will have less frequent mandatory KYC reviews.
- (b) Existing and prospective FPIs that exclusively invest in G-Secs under the Fully Accessible Route (FAR) will be exempted from furnishing investor group details.
- (c) Non-resident Indians, Overseas Citizens of India and Resident Indians individuals (RIs) will be permitted to be constituents of GS-FPIs without any restrictions applicable to other FPIs including being in control of GS-FPI. However, the conditions regarding participation of RIs, viz. contribution through the Liberalised Remittance Scheme and in global funds whose Indian exposure is less than 50%, will continue to apply.
- (d) GS-FPIs will be permitted to intimate all material changes within 30 days (instead of 7 days).

5. Simplification of format of Model Disclosure Document under the PMS route

SEBI has approved: (a) deleting the 'Model Disclosure Document' for applicable for portfolio managers under Schedule V of the *Securities and Exchange Board of India (Portfolio Managers) Regulations, 2020* (PMS Regulations); and (b) restructuring of disclosures and issuing in a simpler manner.

Going forward, the Disclosure Document will be divided into two parts: (a) Dynamic (which will include the content that undergoes frequent changes); and (b) Static (which will include disclosures that do not change frequently).

Portfolio Managers will now be required to circulate only the updated section of the Disclosure Document to the clients. This will provide ease of understanding for investors / clients to identify any material changes clearly highlighted in the communication.

Conclusion

The proposals outlined in the Board Meeting addresses long-standing challenges faced by the financial sector. The Board Meeting reflects a clear and deliberate shift toward creating a more transparent and business-friendly regulatory environment. By proactively identifying friction points and translating stakeholder feedback into concrete reforms, SEBI is not only optimising the regulatory framework, but also reinforcing market confidence. These developments represent a structural recalibration that balances investor protection with operational flexibility.

As the financial ecosystem continues to evolve, SEBI's approach signals a welcome alignment with global best practices and a deepening of trust between the regulator and market participants.

- Siddharth Shah (Partner); Chirayu Heddthale (Principal Associate) and Samarth Chopra (Senior Associate)



About Khaitan & Co

Khaitan & Co is a top tier and full-service law firm with over 1200 legal professionals, including 300+ leaders and presence in India and Singapore. With more than a century of experience in practicing law, we offer end-to-end legal solutions in diverse practice areas to our clients across the world. We have a team of highly motivated and dynamic professionals delivering outstanding client service and expert legal advice across a wide gamut of sectors and industries.

To know more, visit www.khaitanco.com



This document has been created for informational purposes only. Neither Khaitan & Co nor any of its partners, associates or allied professionals shall be liable for any interpretation or accuracy of the information contained herein, including any errors or incompleteness. This document is intended for non-commercial use and for the general consumption of the reader, and should not be considered as legal advice or legal opinion of any form and may not be relied upon by any person for such purpose. It may not be quoted or referred to in any public document, or shown to, or filed with any government authority, agency or other official body.

www.khaitanco.com | © Khaitan & Co 2025 | All Rights Reserved.

Ahmedabad • Bengaluru • Chennai • Delhi-NCR • Kolkata • Mumbai • Pune • Singapore