

SEBI Clarifies AIFs Managed by AMCs are to be Broad Based under the Mutual Fund Regulations

27 April 2026

The Securities and Exchange Board of India (SEBI), in its response to a request for informal guidance by UTI Alternatives Private Limited (UAPL), has clarified certain aspects of the SEBI (Mutual Funds) Regulations, 2026 (formerly the SEBI (Mutual Funds) Regulations, 1996) (the MF Regulations), particularly in relation to their applicability to alternative investment funds (AIFs) and their managers.

By way of background, managers of mutual funds are required to obtain registration as an asset management company (AMC) under the MF Regulations. The MF Regulations prescribe restrictions on the activities that may be undertaken by AMCs, including the provision of management and advisory services to “pooled assets,” such as offshore funds, insurance funds, pension funds, provident funds, and certain categories of foreign portfolio investors (FPIs), subject to conditions specified by SEBI from time to time.¹

One such condition is that the pooled asset must be “broad based.” Under Regulation 2(1)(f) of the MF Regulations, a broad-based fund is defined as one having at least 20 investors, with no single investor holding more than 25% of the corpus of such fund. In practice, this requirement has created interpretational challenges for AMCs that also manage AIFs (whether directly or through subsidiaries). A recurring question has been whether AIFs must also meet the broad-based criteria for an AMC (or its subsidiary) to act as their investment manager or advisor.

SEBI’s informal guidance to UAPL addresses this issue and other related questions.

1. Questions Raised by UAPL

1. Whether the broad based fund requirement applies to management / advisory services rendered by UAPL to pooled assets i.e. AIFs and its schemes?
2. Whether compliance with the broad based fund criteria should be assessed at the fund level or the individual scheme level?
3. In a master feeder structure, whether it is sufficient if only the master fund is broad based as the feeder funds do not do standalone investments and active management is undertaken at the master fund level?
4. Whether the exemption under paragraph 17.3 of the SEBI Master Circular for Mutual Funds dated June 27, 2024 (Master Circular)² extends to appropriately regulated domestic entities such as banks, insurance companies and provident fund trusts on a look through basis?

2. SEBI’s Responses and Rationale

1. SEBI has clarified that the broad-based requirement does apply to AIFs managed or advised by AMCs or their subsidiaries. In arriving at this conclusion, SEBI has relied on the definition of an AIF as a “privately pooled investment vehicle”³, and emphasized on its pooled nature and aligned it with the

¹ Regulation 24(b) of the MF Regulations

² Note this corresponds to paragraph 22.2 of Master Circular for Mutual Funds dated March 20, 2026

³ Regulation 2(b) of the AIF Regulations

broader regulatory intent under the SEBI (Alternative Investment Funds) Regulations, 2012 (AIF Regulations) and the MF Regulations.

2. SEBI further clarified that compliance with the broad-based criteria must be assessed at the scheme level. This position is consistent with Regulation 10 of the AIF Regulations which treats each scheme as a distinct investment vehicle for the purpose of regulatory thresholds, including diversification norms, corpus requirements, and investor limits.
3. Extending the same reasoning as paragraph (2) above, SEBI has stated that in master-feeder structures for AIFs, where both master fund and feeder fund are operating as AIFs in India, they both must independently satisfy the broad-based criteria. This requirement applies regardless of whether the AMC undertakes active management or advisory functions at the feeder level.
4. Finally, SEBI clarified that the carve-outs under the Master Circular, permitting AMCs to provide advisory or management services to specific categories of FPIs such as government-related investors, regulated entities (e.g., banks, insurers, pension and mutual funds), and FPIs majority-owned by these groups, including certain IFSC-based FPIs subject to conditions, do not extend to similarly-situated domestic regulated entities (i.e., banks, insurance companies or provident fund trusts). SEBI's rationale is that domestic regulated entities are not FPIs and therefore fall outside the scope of the relevant Master Circular provisions, making them ineligible for the exemption.

3. Practical Considerations

In effect, AMCs seeking to manage or advise AIFs, whether directly or through their subsidiaries, must ensure that each such fund complies with the broad-based criteria, namely: (i) a minimum of 20 investors; and (ii) no single investor holding more than 25% of the fund's corpus. Importantly, SEBI has clarified that these thresholds must be satisfied at the level of each individual scheme, rather than at the level of the AIF as a whole.

While some of the clarifications are affirmation to past practices followed by AMCs, this scheme-level application significantly affects business operations (where AIFs in general can have a much smaller pool of investors) and increases the compliance burden, as AMCs will now be required to track investors and their respective holdings at the level of each scheme on an ongoing basis.

Further, this may constrain the ability to launch or operate funds with a limited number of large-ticket investors (a common market practice), particularly for fund structures with multiple schemes or customised investment strategy within a scheme. AMCs will therefore need to carefully design investment strategies as well as fundraising strategies and investor allocation models to ensure that each scheme independently meets the diversification thresholds at all times during the tenure of the fund.

Additionally, this clarification may impact AMCs structuring and launching master-feeder arrangements, co-investment vehicles, and single-investor or closely held AIF schemes, which may now face practical constraints pursuant to this clarification. It may also necessitate enhanced ongoing monitoring systems, investor concentration tracking, and periodic compliance testing to ensure that inadvertent breaches do not occur due to changes in investor composition or capital contributions. It also remains to be seen how investor default, mandatory redemptions and other, similar terms in the fund documents are likely to affect the broad basing requirement.

From a commercial perspective, AMCs acting as AIF managers may need to revisit offering documents, investor side letters, and governance frameworks to incorporate safeguards around investor concentration limits.

Overall, SEBI's clarification reinforces a strict interpretation of the broad-based requirement and underscores the regulator's intent to ensure adequate diversification and mitigate concentration risks in AIFs managed by AMCs which otherwise seemed to be applicable only for mutual funds.

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