

## The Corporate Laws (Amendment) Bill, 2026: Providing Impetus to LLP as 'Alternative' Choice for Establishing AIFs

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*The Corporate Laws (Amendment) Bill, 2026 (Bill), introduced on 23 March 2026, inter alia proposes amendments to the Limited Liability Partnership Act, 2008 (LLP Act), paving the way for easier establishment of alternative investment funds (AIFs) as limited liability partnerships (LLPs). The Bill also introduces a special regime enabling fund management entities (FMEs) to launch schemes in the International Financial Services Centre (IFSC), Gujarat International Finance Tec-City (GIFT IFSC), through LLP structures tailored to the IFSC framework. Once enacted, the proposed changes are expected to potentially offer a viable alternative to investment managers and FMEs to establish their AIFs and schemes, respectively, as LLP.*

### Introduction

Under the Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012 (AIF Regulations), AIFs are permitted to be established as a trust, a company or an LLP. However, almost 98% of the AIFs registered in India are established as trusts under the Indian Trust Act, 1882. This contrasts with global practice where "Limited Partnerships" are the most preferred and commonly adopted vehicle for pooling of capital, where investors are partners alongside the fund manager / general partner. Recognising this gap, and based on industry representations, the Bill has been introduced to streamline the framework for LLPs to operate as AIFs and position India's funds framework as a globally competitive framework.

### Key Features of the Proposed Regulatory Framework

#### 1. Rationalised Reporting Requirements:

- (a) Relaxation of the 30-day reporting timeline for admission / retirement of partner: Under the LLP Act, every change in partner is required to be notified to the Registrar of Companies (RoC) within 30 days of such change. This reporting requirement poses a deadline driven compliance burden on AIFs, as investors are onboarded through multiple closings during the AIF's stated fund-raise period. The said requirement poses an administrative hurdle to onboarding new investors. Until such change was taken on record by the RoC, investment managers have faced considerable constraints in holding frequent closings to onboard investors as well as offering timely exits to investors. The problem is exacerbated for open-ended AIFs, which are required to onboard investors and offer exits to investors on a frequent basis. The Bill seeks to address this issue by relaxing the reporting obligations to an annualised cycle and allowing investment managers to onboard investors and offer them exits based on mutually agreed timelines, thereby reducing the burden of corporate filings.
- (b) Revision to the reporting related to changes in the LLP Agreement: The Bill also proposes to revise the reporting requirement for changes in LLP Agreement to such frequency as may be prescribed by the Government. While the Government is yet to roll out the timelines and full details of the reporting requirement, it is expected that such reporting requirement will entail reduced frequency and broader timelines for reporting, thereby affording due business headroom for AIFs set up as LLPs.

2. **Rationalising LLP framework in the GIFT IFSC:** The Bill seeks to align the LLP framework in the GIFT IFSC with the IFSCA's regulatory framework, by introducing "Specified IFSC LLP" as a distinct statutory category, enabling Specified IFSC LLPs to structure contributions to hold and maintain accounts in "permitted foreign currency". IFSC, GIFT City, is a "deemed foreign territory" and its business transactions are to be carried out only in "permissible foreign currency" accounts. However, the process of admitting partners in the LLP required them to contribute capital in INR terms. The amendment proposal seeks to provide operational convenience, to contribute capital in foreign currency without the need to first convert into INR terms.
3. **Transitioning AIFs from trusts to LLPs:** The Bill introduces a transition framework to facilitate the transition of registered AIFs from the trust structure to the LLP structure. The Bill allows conversion of "specified trusts" (fund regulated by SEBI or IFSCA) to LLPs with the consent of 3/4th of the investors of the specified trust for such conversion. The Bill provides that a specified trust may apply for conversion into LLPs along with required documents only when the partners of the new LLP are the trustees of the specified trust. As a legal effect of conversion, all tangible and intangible property vested in the specified trust, all assets, liabilities, obligations, proceedings by and against the specified trust or its trustee on behalf of the specified trust will vest automatically in the LLP. The specified trust will be deemed to be dissolved and be removed from the records of the relevant authority upon conversion. This paves the way for existing AIFs, particularly open-ended AIFs, to consider opting for conversion into LLP.

## Gaps to be Filled

The Bill represents a wider and progressive approach for AIFs established or transitioned to as LLPs. There are, however, a few structural gaps that remain, as set out below, which merit being addressed in the enactment of the Bill:

1. Public availability of investor details: While the Bill proposes a relaxation in the frequency of filing of changes in the composition of partnership to the RoC, it does not, however, deal with the confidentiality concerns of investors, which still remain to be addressed. Sophisticated investors such as sovereign wealth funds, developmental finance institutions and government-backed institutions generally seek to regulate the disclosure of their investments. The public availability of investor details and accounts of the LLP and its investments raises serious privacy concerns under the framework and, accordingly, critically undermines a potential shift to the LLP structure unless a confidential filing regime or redaction mechanism is introduced.
2. Eligibility criteria for conversion of trusts to LLPs: The Bill proposes that only the trustees of the erstwhile trust can be the partners of the converted LLP. This is fundamentally incongruous with the intent of the conversion. Specified trusts typically have only one trustee acting as the trustee to the investment fund. On the other hand, every LLP is required to have at least two partners for a valid LLP set-up. This dichotomy accordingly renders the eligibility criteria fundamentally invalid. Further, the Bill does not provide any clarity on the status and rights of the existing and new investors in such LLP, thereby affecting investor confidence in the proposed LLP framework.
3. Lack of clarity on multiple scheme structures: The Bill does not offer any regulatory guidance on the possibility of multiple schemes being housed within an AIF established as an LLP.
4. Restriction of Hindu Undivided Family (HUF) / its kartas / trusts on becoming partners: The MCA presently restricts HUFs / their kartas and trusts from becoming partners in an LLP. Both trusts and HUFs / kartas are eligible to, and have typically participated in, AIFs structured as trusts. The Bill does not, however, provide any clarity on the eligibility of HUFs / their kartas and trusts to participate in AIFs set up as LLPs. Further, the Bill also does not offer any guidance on the status and rights of existing HUF / karta / trust investors in specified trusts upon their conversion to LLPs.
5. Duplication of compliances: Any AIF set up as LLP shall be required to comply with dual reporting requirements under the SEBI / International Financial Services Centres Authority (IFSCA) and the Ministry of Corporate Affairs. To avoid duplication of efforts and time in reporting similar information, it is important that the reporting requirements of SEBI / IFSCA be reconciled with those of MCA.
6. Tax events and treatment of conversion: A long-standing industry demand has been to provide clarity on the usage of the term "business" under Sections 2(e) and 11(a) of the LLP Act. The characterisation of fund activities as "business" activities carries the risk of them being taxed as business income, which

may have significant adverse tax consequences for AIFs set up as LLPs and for their partners. The Bill, however, does not provide any clarity on the nature of income earned by the AIF. Additionally, the Bill does not provide any clarity on the tax treatment of conversion of specified trusts to LLPs.

## Conclusion

The LLP structure for AIFs has presently been undermined because of the compliance friction created under the extant LLP framework. The Bill intends to reduce this friction and enable AIFs to be set up as LLPs, marking an important step towards positioning the Indian investment funds market as globally competitive. While the Bill has largely addressed the industry demands, there are a few operational and principal gaps which have been missed in the Bill. Once these critical gaps are resolved, the Bill, when enacted, reserves the potential to provide the required impetus to make LLPs as viable choice for AIFs.

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