News: The Union Cabinet has approved the creation of an Alternative Investment Fund (AIF) of Rs. 25,000 crore to provide last-mile funding for stalled affordable and middle-income housing projects across the country.

Prelims focus: About the newly announced fund, AIF- key features.

Mains focus: Significance and the need for AIFs.

Key features:

1. The fund size will initially be Rs. 25,000 crore with the government providing Rs. 10,000 crore and the State Bank of India and the Life Insurance Corporation providing the balance.
2. The funds will be set up as Category-II Alternative Investment Fund registered with the Securities and Exchange Board of India and will be managed by SBICAP Ventures Limited.
3. The open-ended fund is expected to swell over time. The government is also in talks with sovereign bonds and pension funds to put in money in AIF further.
4. The Cabinet also approved the establishment of a ‘Special Window’ to provide priority debt financing for completion of stalled housing projects in the affordable and middle-income housing sector.

What are AIFs?

As defined in Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012, AIFs refer to any privately pooled investment fund, (whether from Indian or foreign sources), in the form of a trust or a company or a body corporate or a Limited Liability Partnership (LLP).

- AIF does not include funds covered under the SEBI (Mutual Funds) Regulations, 1996, SEBI (Collective Investment Schemes) Regulations, 1999 or any other regulations of the Board to regulate fund management activities.
- Hence, in India, AIFs are private funds which are otherwise not coming under the jurisdiction of any regulatory agency in India.

Categories:

As per SEBI (AIF) Regulations, 2012, AIFs shall seek registration in one of the three categories:

1. Category I: Mainly invests in start-ups, SME’s or any other sector which Govt. considers economically and socially viable.
2. Category II: These include Alternative Investment Funds such as private equity funds or debt funds for which no specific incentives or concessions are given by the government or any other Regulator.

3. Category III: Alternative Investment Funds such as hedge funds or funds which trade with a view to make short term returns or such other funds which are open ended and for which no specific incentives or concessions are given by the government or any other Regulator.