



Sub: Clarifications on provisions with respect to investment in Alternative Investment Funds(AIFs)

1. Under the current provisions of para 1.5 of Master Circular on Actuarial, Finance and Investment Functions of Insurers, dated 17th May,2024, IRDAI allows insurers to invest in Alternative Investment Funds. The existing provisions inter alia stipulate the following:
 - i. Insurer shall invest only into Fund of Funds (FoF) which comply requirement of Section 27E of the Insurance Act, 1938;
 - ii. Insurer shall ensure compliance with Section 27E by a clause in the Fund Offer Documents executed by FoF to restrain such FoF investing into AIFs which invest in overseas companies/funds;
 - iii. Insurers should ensure that AIFs do not invest in securities of companies incorporated outside India to comply with the provisions of Section 27E of the Insurance Act,1938;
 - iv. No Insurer shall invest in an AIF, which in turn has exposure to a FoF, in which the Insurer has taken an exposure.
2. Insurers have been requesting for clarifications the above provisions in respect of investing in AIFs with “Excuse rights” and investee limits for direct and indirect exposure through Fund of Funds (FoF). In view of the requests and to broaden the avenues for insurers’ investments in AIFs, the following clarifications are provided -
 - a) Compliance with the following conditions will satisfy sub paras 4(b),(c) and 5 of para 1.5 of Master Circular on Actuarial, Finance and Investment Functions of Insurers:
 - i. The insurers’ investments in such AIFs are with “Excusal Rights” as per SEBI Circular SEBI/HO/AFD-1/PoD/P/CIR/2023/053 dt.10th April,2023 as amended from time to time and proceeds of the insurers’ investments are not invested outside India by such AIFs.
 - ii. At the time of investing, the insurer must provide a formal declaration citing Section 27E of the Insurance Act,1938 as the basis for their inability to participate in overseas investments of AIF;
 - iii. There shall be a clause in Private Placement Memorandum stating that the Capital (including any proceeds) received from Insurer shall not be drawn down, utilized or pledged for any investment outside India;

- iv. Statutory auditors of AIF shall confirm that the capital of the insurer is not invested outside India;
- v. Insurer shall obtain a compliance certificate from the AIF confirming that all overseas investments are disclosed to the insurer, the “Excusal Rights” were validly invoked for insurer’s investments and no cost related to overseas assets were charged to the insurer.
- vi. Concurrent Auditor of the insurer shall certify the compliance of the provisions of “Excusal Rights” with respect to insurer’s investment in AIFs having outside India Exposure.

A reference framework on points (i) to (vi) above to be suitably adopted by insurers is placed at Annexure.

- b) Sub para 4(d) of Para 1.5 of Master Circular on Actuarial, Finance and Investment Functions of Insurers is replaced by the following provision:

“Insurer shall ensure compliance with the single AIF exposure limit specified under column (c) of table under sub para 7 below in respect of their direct exposure and indirect exposure (through Fund of Funds) into such single AIF”.

This circular is issued with the approval of the Competent Authority.

Sd/-
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Comprehensive Operating Framework

This framework integrates the **SEBI Excusal Circular** with the compliance requirements of **Section 27E**, creating a binding protocol for AIF Managers.

1. Documentation Level: Hard-Coding Section 27E into the Fund Documents.

The following clauses must be embedded directly into the **Private Placement Memorandum (PPM)** and the **Contribution Agreement**.

- **The "Statutory Exclusion" Clause (PPM):** The PPM shall explicitly define "Restricted Policyholder Capital." It will state: *"Notwithstanding any other provision, Capital Commitments received from Indian Insurance Companies shall strictly NOT be drawn down, utilized, or pledged for any investment outside India, in compliance with Section 27E of the Insurance Act, 1938, including any deal specific expenses."*

The "Deemed Excusal" Covenant (Contribution Agreement): The Contribution Agreement will include a standing instruction: *"The Investor (Insurer) hereby invokes, and the Manager accepts, a standing Excusal Right under SEBI Circular SEBI/HO/AFD-1/PoD/P/CIR/2023/053 for all potential overseas investment opportunities. No separate adjudication is required per deal; the restriction is absolute."*

2. Process Flow: Recording, Confirmation, and Reporting

The following step-by-step process ensures "Zero Contamination" of funds.

a. Recording of Excusal Rights Invocation Unlike standard commercial excusals, this is a *Statutory Excusal*.

Action: Upon on boarding, the Insurance Company submits a **"Section 27E Declaration"**.

Record: The AIF Manager records this in the **Master Investor Register** with a flag: Status: RESTRICTED_DOMESTIC_ONLY.

Effect: This flag automatically excludes the Insurer from the "Investable Corpus" for any deal tagged as "Overseas/Non-Resident."

b. Confirmation by AIF Manager (Pre-Drawdown) Before any capital call is issued for an overseas asset:

Compliance Check: The Fund Manager must generate a "**Drawdown Eligibility Schedule.**"

Verification: The Schedule must explicitly show the Insurance Company's allocation as **ZERO (0)**.

Manager Confirmation: The Manager signs a "Negative Assurance Statement" confirming that the total drawdown amount () is being sourced *exclusively* from non-insurer Investors.

c. Reporting to the Insurance Company Investor the Quarterly Report sent to the Insurer must be modified to include a "**Section 27E Compliance Annexure.**" This annexure must state:

- *Total Overseas Investments made by Fund during the period: ₹ Y Cr.*
- *Capital drawn from Insurance Company for above: ₹ 0.00.*
- *Current Beneficial Interest of Insurance Company in Overseas Assets: 0.00%.*

d. Certification Framework (The Three Lines of Defense)

A three-tier certification Model shall be in place

Level	Authority	Certification Scope	Frequency
Level 1	Compliance Officer & Manager of AIF	Certify that for every specific overseas deal executed in the period, the Insurer was fully excused and no funds were debited.	Quarterly (with Reports)
Level 2	Statutory Auditor of AIF	Audit of "Excluded Units": Certify that the AIF's accounting system successfully segregated the Insurer from the overseas portfolio. Certify that	Annual (Financial Year)

		the profit/loss attribution for overseas assets was NOT allocated to the Insurer.	
Level 3	Concurrent or Internal Auditor of the Insurer	Verify that the bank account of the Insurer shows NO outflows matching the dates/amounts of the Fund's overseas calls. Concurrent / Internal Audit	Quarterly

Role of Various Entities in the Operating Framework

1. The Alternative Investment Fund (AIF)

The AIF bears the primary operational burden of segregating the "Restricted Policyholder Capital".

Constitutional Documents: The AIF must amend its Private Placement Memorandum (PPM) and Contribution Agreement to explicitly include the "Statutory Excusal" clause. This clause must state that the Insurer's commitment is *void ab initio* for any investment violating Section 27E.

Dual-Ledger Accounting: The AIF must maintain a system capable of "Dual-Denominator" calculations. The system must be able to process a capital call where for specific deals.

Expense Tagging: The AIF must implement strict expense coding. "Deal-Specific Expenses" (e.g., foreign legal counsel, travel for overseas diligence) must be capitalized to the specific asset and excused, rather than pooled into "General Fund Expenses".

Drawing Certification: For every capital call involving an overseas asset, the AIF Manager must issue a "Negative Confirmation" to the Insurer stating: *"This Capital Call Notice is for an Overseas Asset. Your share is INR 0.00. No funds are requested."*

2. The AIF Auditor and Compliance Officer

These entities act as the "First Line of Defence," certifying that the AIF's internal walls are functioning.

Compliance Officer (Quarterly): Must issue a compliance certificate confirming that:

- All overseas investments made during the quarter were flagged correctly in the system.
- The "Excusal Rights" were validly invoked for the Insurance Investor.
- No "Indirect Costs" (overhead leakage) related to overseas assets were charged to the Insurer.

Statutory Auditor (Annual):

Audit of Excluded Units: The audit report should specifically verify the "Class I" (or specific Insurer) capital account to ensure zero attribution of foreign assets.

Process Audit: Verify that the "Excusal" mechanism was not just a manual adjustment but a systematic exclusion in the fund's register.

Certification: Provide a specific certification that the Fund has maintained the "Audit Trail" required to prove strict adherence to Section 27E.

3. The Insurers (Investors)

The Insurer must be an active participant in compliance, ensuring their "Excusal" is legally binding and documented.

Upfront Declaration: At the time of on boarding, the Insurer must provide a formal declaration citing Section 27E as the legal basis for their inability to participate in overseas tranches.

Accounting Controls: The Insurer's internal investment team must track the AIF's portfolio. When the AIF announces an overseas deal, the Insurer's books should record a "Null Event" (an investment opportunity that was skipped), ensuring their internal records match the AIF's "Zero Allocation".

Banking Controls: The Insurer should implement a protocol where capital call received is examined for any reference to foreign investment and act accordingly.

4. The Insurer Auditors

The "Final Line of Defence," providing independent verification to the IRDAI that policyholder funds are safe.

Cash Flow Verification: The Auditor must verify the AIF's drawdown schedule. They must confirm that for every date the AIF called capital for an overseas asset, the Insurer's outflow was exactly **zero**.

Portfolio Review: The Auditor must review the "Schedule of Investments" provided by the AIF. They must confirm that the Insurer's "Statement of Holdings" shows **0% ownership** in any foreign entity listed in the Fund's broader portfolio.

Section 27E Attestation: Based on the "Negative Assurance" from the AIF Manager and the bank statement verification, the Auditor provides an attestation that the Insurer has not "directly or indirectly" invested funds outside India.

Summary of Responsibilities

Stakeholder	Primary Responsibility	Key Deliverable to Regulator
AIF Manager	Execution	Zero Leakage" Drawdown Notices & Deal-Specific Expense Allocation
AIF Auditor	System Verification	Certification of "Economic Separation" in Annual Report
Insurer	Invocation	Contractual Invocation of Excusal Rights (PPM/Side Letter)
