

29 June 2018

The Chief General Manager
Investment Management Department
Division of Funds-1
Securities and Exchange Board of India
SEBI Bhavan
Plot No.C4-A,'G' Block
Bandra Kurla Complex, Bandra (East)
Mumbai 400 051

Dear Madam/Sir,

Sub: Request for interpretative letter under the Securities and Exchange Board of India (Informal Guidance) Scheme, 2003 in connection with Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012

This is a request for an interpretative letter under the Securities and Exchange Board of India (Informal Guidance) Scheme, 2003 ('the Scheme').

1. Background

- 1.1 JM Financial Limited ('JMFL') provides investment management services, amongst other Funds, to JM Financial India Fund II ('Fund') a Scheme of JM Financial India Trust II ("Trust"). The Trust is registered as a Category II Alternative Investment Fund with the Securities and Exchange Board of India ("SEBI") under SEBI (Alternative Investment Regulations), 2012 ("AIF Regulations") vide registration number IN/AIF2/16-17/0309.
- 1.2 The Fund intends to accept capital commitments from the eligible investors and make investment as per Fund's investment strategy.
- 1.3 JMFL, being the investment manager to the Trust, wishes to seek informal guidance on behalf of the Trust based on the facts and query raised in the application.

2. Facts

- 2.1 The Fund, during the course of its operations, may come across situations where there are unutilised funds lying in its bank accounts. Such situation could arise *inter alia* on account of the following reasons.

- a. Capital contribution received from the investors, pending investment of such funds (uninvested portion of the investible funds);
- b. Time gap between (i) receipt of proceeds on sale/ transfer of investments or (ii) the returns earned from the investments (e.g. dividend, interest, etc.) and distribution of (i) and (ii) to the investors.

In certain cases where the amounts may be small, the same are likely to get accumulated at the Fund level and will be distributed to the investors at a later stage. Till the time the funds are distributed to the investors, the same may remain as idle funds.

- c. Estimated expenses retained by the Fund for administration and management of the Fund. These amounts are large in the initial phase of the Fund's tenure as the expenses of the Fund are estimated for the entire life of the Fund. Until utilisation, these funds would remain as idle funds.

JM Financial Limited

Corporate Identity Number : L67120MH1986PLC038784

Regd. Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025.

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- 2.2 The Fund proposes to invest such unutilised funds into liquid mutual funds and similar liquid investments as they typically offer better returns than money lying in current account thereby providing a better overall return for the investors.

3. AIF Regulation

Regulation 2(1)(p): Investible funds

“investible funds” means corpus of the Alternative Investment Fund net of estimated expenditure for administration and management of the fund”

Regulation 15(1): General investment conditions:

“(c) Category I and II Alternative Investment Funds shall invest not more than twenty five percent of the [investible funds] in one Investee Company;”

“(f) Uninvested portion of the [investible funds] may be invested in liquid mutual funds or bank deposits or other liquid assets of higher quality such as Treasury bills, CBLOs, Commercial Papers, Certificates of Deposits, etc. till deployment of funds as per the investment objective;”

4. Request for Guidance

- 4.1 Regulation 15(1)(f) of AIF Regulation specifically provides that Alternate Investment Fund can temporarily invest the uninvested portion of its investible funds in liquid assets till deployment of funds as per the investment objective.
- 4.2 However, the AIF regulations do not specify whether the unutilised funds arising on account of *inter alia* the following, can be invested in liquid investments.
- a) The monies received on sale/ transfer of the investments or returns from investment (e.g. dividend or interest on securities) before remitting it back to the investors; and
 - b) Amounts retained by the Fund for meeting day to day expenses of the Fund.

5. Query

- 5.1 In light of the above facts, JMFL on behalf of the Trust, requests as per Para 4 of the Scheme an interpretative letter for the following understanding:

“Whether an Alternative Investment Fund under the AIF Regulations is in compliance with the provisions of AIF regulations, when it invests its unutilised funds (other than that permitted under Regulation 15(1)(f) of the AIF Regulation) in the units of liquid mutual funds or bank deposits or other liquid assets of higher quality such as Treasury bills, CBLOs, Commercial Papers, Certificates of Deposits, etc.?”

Our contention

- 5.2 The provisions of Regulations 15(1)(c) of the AIF Regulations dealing with investment conditions is applicable to investible portion of the capital contribution and not with respect to unutilised funds.
- 5.3 Further, the Regulation 15(1)(f) of the AIF Regulations specifically permits the Fund to invest uninvested portion of the investible funds in liquid mutual funds or bank deposits or other liquid assets of higher quality such as Treasury bills, CBLOs, Commercial Papers, Certificates of Deposits, etc.
- 5.4 Investment of unutilised funds as mentioned in para 4.2 into liquid mutual funds or bank deposits or other liquid assets of higher quality such as Treasury bills, CBLOs, Commercial Papers, Certificates of Deposits, etc. will offer better returns in comparison to money kept idle in the Fund's bank account. This will be beneficial for the investors, as it will result into a better overall return for the investors.

5.5 It may be noted that liquid mutual funds or bank deposits or other liquid assets of higher quality such as Treasury bills, CBLOs, Commercial Papers, Certificates of Deposits, etc. can be easily liquidated and hence, these investments are virtually cash like.

6. Fees

As per the requirements prescribed under the Scheme, we have attached the demand draft for INR 25,000/-, towards fees for seeking the interpretive letter.

Further, as per the provisions of Para 11 of the Scheme, we request you to give confidential treatment to the application for a period of 90 days from the date of SEBI's response.

We request you to contact Mr. Raj Agrawal at Rajkumar.Agrawal@jmfl.com / +91 9892377000 if you have any questions or require any clarifications with respect to this application or require any further information/documents/details and we shall provide the same at the earliest.

Thanking you in advance.

Yours sincerely,

For JM Financial Limited

(Investment Managers for JM Financial India Trust II)



Authorised Signatory

Name: Darius Pandole

Designation: Managing Director & CEO – PE & Equity AIFs

Encl: Demand Draft No. 776856 dated June 27, 2018 of Rs. 25,000/- drawn in favor of "The Securities and Exchange Board of India"

21 September 2018

The Chief General Manager
Investment Management Department
Division of Funds-1
Securities and Exchange Board of India
SEBI Bhavan
Plot No.C4-A,'G' Block
Bandra Kurla Complex, Bandra (East)
Mumbai 400 051

Dear Madam/Sir,

Sub: Request for modification of question raised in the interpretative letter under the Securities and Exchange Board of India (Informal Guidance) Scheme, 2003.

We refer to our letter dated 29 June 2018 (filed on 2 July 2018)(the 'Letter'), wherein JM Financial Limited ('JMFL') being the investment manager to JM Financial India Fund II ('JMFIF') a Category II Alternative Investment Fund registered with the Securities and Exchange Board of India ("SEBI") under SEBI (Alternative Investment Regulations), 2012 ("AIF Regulations") requested for guidance by way of an interpretative letter under the Securities and Exchange Board of India (Informal Guidance) Scheme, 2003 ('the Scheme'). Copy of the letter is attached as **Annexure 1**.

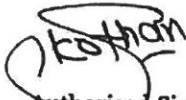
In this connection, we wish to state as under:

- 1 In the Letter we had requested guidance on two questions in para 4 of the Letter as to whether the unutilised funds can be invested in liquid funds, arising on account of (i) the monies received on sale/transfer of the investments or returns from investment (e.g. dividend or interest on securities) before remitting it back to the investors and (ii) amounts retained by the Fund for meeting day to day expenses of the Fund.
- 2 We wish to withdraw our request for guidance raised in para 4.2 of the Letter in relation to unutilised fund arising for meeting day to day expenses of the Fund. Accordingly we wish to alter/modify the request for guidance.
- 3 In this connection, we have attached the modified letter for guidance by way of an interpretative letter under the Scheme as **Annexure 2**. It may be noted that we have modified only paragraph 2.1 and 4.2 of the Letter.
- 4 We request you to provide your guidance in light of the above mentioned modified letter.

We request you to contact Mr. Rajkumar Agrawal at Rajkumar.Agrawal@jmfl.com / +91 9892377000 if you have any questions or require any clarifications with respect to this application or require any further information/documents/details and we shall provide the same at the earliest.

Thanking you in advance.

Yours sincerely,
For JM Financial Limited,
(Investment Managers for JM Financial India Trust II)



Authorised Signatory
Name: Siddharth Kothari
Designation: Executive Director – Private Equity
Encl: As above

29 June 2018

The Chief General Manager
Investment Management Department
Division of Funds-1
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1. Background

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- 1.2 The Fund intends to accept capital commitments from the eligible investors and make investment as per Fund's investment strategy.
- 1.3 JMFL, being the investment manager to the Trust, wishes to seek informal guidance on behalf of the Trust based on the facts and query raised in the application.

2. Facts

- 2.1 The Fund, during the course of its operations, may come across situations where there are unutilised funds lying in its bank accounts. Such situation could arise *inter alia* on account of the following reasons:

- a. Capital contribution received from the investors, pending investment of such funds (uninvested portion of the investible funds);
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3. AIF Regulation

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5. Query

- 5.1 In light of the above facts, JMFL on behalf of the Trust, requests as per Para 4 of the Scheme an interpretative letter for the following understanding:

"Whether an Alternative Investment Fund under the AIF Regulations is in compliance with the provisions of AIF regulations, when it invests its unutilised funds (other than that permitted under Regulation 15(1)(f) of the AIF Regulation) in the units of liquid mutual funds or bank deposits or other liquid assets of higher quality such as Treasury bills, CBLOs, Commercial Papers, Certificates of Deposits, etc.?"

Our contention

- 5.2 The provisions of Regulations 15(1)(c) of the AIF Regulations dealing with investment conditions is applicable to investible portion of the capital contribution and not with respect to unutilised funds.
- 5.3 Further, the Regulation 15(1)(f) of the AIF Regulations specifically permits the Fund to invest uninvested portion of the investible funds in liquid mutual funds or bank deposits or other liquid assets of higher quality such as Treasury bills, CBLOs, Commercial Papers, Certificates of Deposits, etc.
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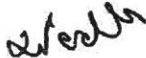
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Designation: Managing Director & CEO – PE & Equity AIFs

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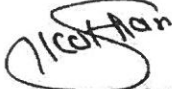
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Yours sincerely,

For JM Financial Limited,
(Investment Managers for JM Financial India Trust II)



Authorised Signatory

Name: Siddharth Kothari

Designation: Executive Director – Private Equity