IV. DISSECTING SEBI'S PRIORITY DISTRIBUTION MODEL: UNPACKING THE CONSULTATION PAPER AND IMPLICATIONS OF THE BAN

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ABSTRACT

Alternative Investment Funds (AIFs) are increasingly used investment instruments all over the world. It allows the investors to invest in the assets which they cannot individually invest in. There are various models for distribution of profits and losses in such funds and one such model is the Priority Distribution (PD) Model which has been followed all over the globe. It allows the investors to flexibly invest and accordingly the profits and losses are distributed giving priority to some investors in comparison to others.Securities and Exchange Board of India (SEBI) was apprehensive of this arbitrary distribution of profits among the investors. Therefore, it banned any future investment in Alternative Investment Funds which follow the Priority Distribution Model. Recently, SEBI came up with a consultation paper proposing revisions to the regulatory framework concerning the Priority Distribution Model within the Alternative Investment Funds. The focus lies on ensuring equitable rights for all investors. The present paper seeks to analyse the above-mentioned consultation paper of SEBI and its action of banning the Priority Distribution Model.

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I. ALTERNATIVE INVESTMENT FUNDS: A BUDDING OPTION FOR INVESTORS

Alternative Investment Funds **("AIFs")** are investment instruments wherein multiple investors pool their funds together to invest in a wide range of assets different from traditional assets such as stocks, bonds or cash. It provides an opportunity to invest across assets such as private equity, hedge funds, real estate or infrastructure, etc. in which an individual investor cannot invest alone. These funds are private and offer potentially higher returns and diversification benefits.[1]

AIFs play a crucial role in fostering economic growth. These funds help in pooling the investments for the non-traditional sectors such as Start-ups, Micro, Small, and Medium enterprises as well as other infrastructure projects which in turn boost the industrial growth of the country. Such investments also lead to an increase in job opportunities due to the development of new projects. The creation of such job opportunities leads to better living standards. Such funds also promote investments in research and development.

AIFs also boost market liquidity as the investments are diverted to markets where there is a money crunch. Investments in such sectors also attract other participants increasing the trade activities and reducing price volatility. Moreover, AIFs aim at long-term investments which bring stability in the market. Also, AIFs aim at the growth of disadvantaged sectors by pooling a

[1] Flnoux, 'What is Alternative Investment Fund', (2023), ICICI Direct <https://www.icicidirect.com/research/equity/finace/what-is-alternative-investment-fund> accessed 25 February 2024.

large amount of funds into the same. Thus, AIFs act as boosters to the overall growth of the economy.

AIFs are controlled by the fund managers or investment firms who decide on behalf of funds. These funds can be open-ended or close-ended with varying conditions for liquidity and investments.

In India,[2] the Securities and Exchange Board of India **("SEBI")** regulates the working of AIFs. The minimum threshold for investing in such AIFs is 1 crore. Therefore, the investors need to carefully assess risks, investment strategies, fees, and other regulatory frameworks before making such investments.

II. INVESTMENTS IN AIFS: UNDERSTANDING PRO-RATA AND PARI-PASSU RIGHTS

Pro-rata indicates that the profit, losses, and expenses incurred by the investor will be proportional to his capital contribution. For example, if you own 5% of a company and it pays $100,000 as a dividend, you would receive $5,000 as profit. It signifies that investors attain an impartial share of returns and have to pay a fair portion of the expenses based on their contributed investments. The phrase "Pari-passu"[3] signifies the principle of equitable asset and obligation management, paired with the absence of preferential treatment. Pari-passu distribution is only possible when there is pro-rata allocation of

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[2] 'Alternative Investment Funds', BSE, <https://www.bseindia.com/Static/about/alternative_investment_funds.aspx> accessed 20 February 2024.

[3] Robert A. Cohen, 'Sometimes a Cigar is Just a Cigar: The Simple Story of Pari Passu' (2011) 40 (1) HLR <https://scholarlycommons.law.hofstra.edu/hlr/vol40/iss1/3/> accessed 19 February 2024.

benefits because in such distribution each party receives its proportional contribution of investment.

Priority distribution may encompass the capacity to attract additional investors with an expanded asset and investment base. The below two figures signify that despite this fact the inequitable allocation can harm the investors. The benefits of disproportionate division are difficult to sustain for longer.

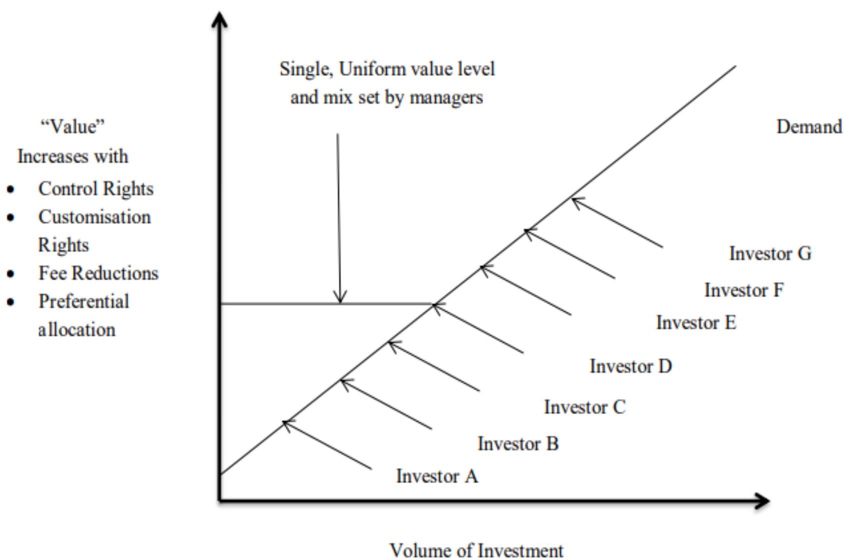

FIGURE 1[4]

In Figure 1, the y-axis demonstrates the "value" of the AIFs with a manager and the x-axis represents the "total investment". In the below divisions, the demand for investment increases with the increase in the "value" of the investment. Investors who are interested to invest at low "value" will

[4] William Clayton, 'Preferential Treatment and the Rise of Individualized Investing in Private Equity', (2017), SSRN <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2746725> accessed 19 February 2024.

get lower customisation rights, control rights and fund allocation and vice versa. In this approach, the preferential treatment of investors is not plausible.

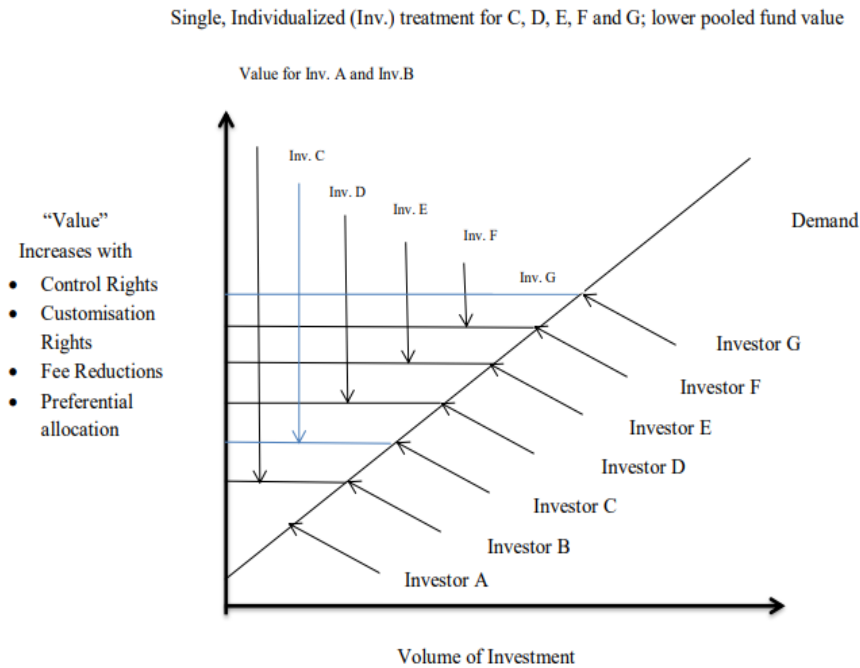

FIGURE 2[5]

Figure 2, represents the situation when there is differential treatment of investors. Rather than keeping all the investors in a "pooled fund" with Investors A and B, Investors C and D are offered dissimilar terms. When the manager makes such arrangements, Investors A and B no longer receive equal terms like Investor D. The value provided to the smaller "pooled fund" with Investors A and B is brought down to the minimum needed for attracting Investor B. Investor C also receives terms of lower value compared to the

[5] ibid.

original pooled fund. Only Investor D retains the same terms as in the original pooled funds.

There has been a continuous conflict between investors due to the preferential treatment of some investors over others. The utilization of the Priority Distribution **("PD")** Model is one such arrangement that follows differential treatment of investors making it a major cause of concern until recent times.

III. THE IMPERATIVE OF PRIORITY DISTRIBUTION MODEL IN AIFS

A. Operational Mechanism of PD Model

In the context of AIFs, the PD Model refers to the structure in which the funds, profits and gains are distributed among its shareholders and investors. AIFs usually have various classes of investors who have varied priorities when it comes to the returns on their investments. The PD Model helps in assuring the fair distribution of profits.

The Priority Distribution generally follows the below-mentioned sequence which may change according to the conditions agreed by the investors while investing in the fund or according to the prospectus of the fund:[6]

1. Before the distribution of any profits to the investors, the expenses incurred in the operation and management of the funds are deducted.

[6] 'Alternative Investment Funds in India', (2021), AmLegals, <https://amlegals.com/wp-content/uploads/2021/04/Alternative-Investment-Funds.pdf> accessed 18 February 2024.

Such expenses include operating expenses, management fees, administrative costs, and other expenses which have been incurred by the fund.

2. After the deduction of the operational expenses, the most favorable returns are given to the preferred investors. These favored percentages of returns are the minimum returns on the investment to be given to the preferred investors before the distribution of any profits among the other investors.

3. After the allocation of the preferred return after deducting the operational expenses, the capital allocations are done to the investors on a pro-rata basis depending upon the share of investments in the funds.

4. After all the above allocations are made; the remaining profits or gains are distributed among the investors depending upon the particular arrangements agreed by the investors of the funds.

The Fund Manager or the General Manager of the fund has the responsibility to assure the allocation of funds according to the governing documents of the fund. In the PD Model of AIFs, the senior class/tranche is given priority in comparison to the junior class/tranche.[7]

The profits and losses of the funds are shared according to the above preferential model. The shares of losses and profits are proportional to their investments. Junior-class investors will get less profit and will be provided

[7] Clayton (n 4) 249.

with less security. On the other hand, the senior class investors will have more share in investors and more security for their funds. Thus in case of losses, the senior class investors will have to contribute less as the losses will be firstly covered using the funds of junior class investors.[8]

B. Positive Aspects

The PD Model is preferential but it serves several purposes and is beneficial in different ways. The model aims at synchronizing and aligning the interests of different investors and ensuring the interest of funds. For example, the fund manager is given interest after the fund's profitable performance to ensure proper management of the trust. The fund manager is rewarded depending on his skills, performance, capacity to overcome hurdles and various other benchmarks. Each trust varies according to the investors' needs and risk-taking capacity.[9]

The PD Model of AIFs leads to long-term investments as the returns and losses are based upon long intervals of time period. The conditions of AIFs are customized according to the particular investors and their preferences. The model helps the preferred investors preserve their capital by giving them a priority. Risk is shared among the various stakeholders depending upon their class and shares. Moreover, the investors who are not preferred, that is the junior class investors/tranche are already made aware about the risks.

[8] Donald R. Chambers, Keith Black, CFA and Nelson J. Lacey, 'Alternative Investments: A Primer for Investment Professionals', (2018), CFA Institute Research Foundation < https://www.cfapubs.org/doi/pdf/10.2469/ccb.v2014.n1.1.> accessed 17 February 2024.

[9]'Three Pillars of our approach to collective investment trusts', T. Rowe Price,<https://www.troweprice.com/content/dam/iinvestor/planning-and research/Insights/white-papers/benefits- alternative-investments.pdf> accessed 17 February 2024.

C. Areas For Improvement

SEBI recently was of the view that certain classes of investors have to suffer more losses as compared to another set of investors as some investors are allowed to exit from funds before others.[10] This sharing of losses is not according to the share of funds of the investors. According to SEBI, such distribution is unfair to some investors. The other concerns disclosed by SEBI include the abuse of such funds by Non-Banking Financial Companies **("NBFCs")** to restructure their stressed assets. If the stressed assets are not paid attention, they turn into Non-Performing Assets **("NPAs")**. NBFCs would definitely not want these stressed assets to be reflected in their balance sheets due to which they might invest such assets in AIFs. If SEBI bans the waterfall mechanism (order for distribution of profits according to sequential layers of investors) with priority distribution, then it would make it difficult for investors to find investments for these stressed assets with little or no credit enhancement through subordination.[11]

Another issue concerning the PD Model of AIF is its complexity. Investors who do not have a strong finance background have difficulty understanding such models despite the disclosures made by AIFs in their prospectus. The unequal distribution of profits also leads to conflicts among the shareholders. Such models also lack transparency in their functioning. The PD Model prioritizes the return of capital before profit distribution and generation of income. Due to the same, there are longer lock-up periods and a

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[10] Payaswini Upadhyay, 'Priority Distribution By AIFs: What's SEBI's Problem?', (2022), NDTV Profit, <https://www.bqprime.com/law-and-policy/priority-distribution-by-aifs-whats-sebis-problem> accessed 17 February 2024.
[11] ibid.

lack of liquidity for investors in such funds. Moreover, in such models, the returns are based entirely upon the performance of funds, so the risks involved are very high.

IV. SEBI'S REGULATORY PROPOSAL AND ITS COMPREHENSIVE EVALUATION

SEBI, vide its notification[12] has imposed a temporary ban on the inflow of any new funds in AIFs which follow the PD Model in the distribution of profits and losses among its investors. Following the above notification, SEBI in May 2023[13] has come up with a consultation paper suggesting the changes and regulations around the working of AIFs and its PD Model. Some of the suggestions include the equal distribution of profits among the investors, strict disclosure requirements, etc. Even if the use of such a model is necessary, the higher and the minimum threshold values for sharing of profits and losses should be set in advance and the same should be disclosed to the investors before investing. The creation of separate funds for separate class of investors is also proposed.

SEBI in his recent paper completely banned the future of Alternative Investment funds which are based upon proportional rights to the investors based on junior class and senior class divisions. It advocated equal rights to all

[12] 'Circular: Schemes of AIFs which have adopted priority in distribution among investors' (2022), SEBI, <https://www.sebi.gov.in/legal/circulars/nov-2022/circular-schemes-of-aifs-which-have-adopted-priority-in-distribution-among-investors_65393.html> accessed 16 February 2024.

[13] 'Consultation Paper on Proposal with Respect to Pro-Rata and Pari-Passu Rights of Investors of Alternative Investment Funds (AIFs)' (2023), SEBI, <https://www.sebi.gov.in/reports-and-statistics/reports/may-2023/consultation-paper-on-proposal-with-respect-to-pro-rata-and-pari-passu-rights-of-investors-of-alternative-investment-funds-aifs-71540.html> accessed 16 February 2024.

the investors. SEBI is correct in its approach when it comes to regulating the Priority Distribution of AIFs as it was disadvantageous to the junior class investors and was disproportional and had functionality issues. But completely banning the future investments in such AIFs would not be a feasible step as it would lead to lower investments in infrastructure and larger social projects in the near future. Also, giving equal rights to all kinds of investors will discourage the larger investors to invest more due to lack of profit incentives.

First of all, AIFs are different from Mutual Funds considering the investor classes and the private nature of the AIFs.[14] AIFs often cater to a different investor class compared to Mutual Funds. They target high-net-worth individuals, institutional investors, or qualified investors. Additionally, AIFs are typically structured as private funds, offering a more exclusive investment opportunity compared to Mutual Funds, which are open to retail investors. So, regulating them in such a manner that AIF distribution mechanisms are similar to Mutual Funds is arbitrary. The maintenance of strict equality among the different classes of investors is neither always fair nor desirable in the present situation. Unequal treatment should be allowed when it leads to growth along with the satisfaction of the individual interests of shareholders.

Moreover, AIFs are an instrument of investment for more sophisticated and high-end investors. With a minimum limit of 1 crore of Investment, it can be assumed that investors will be aware of the risks before making the investments. Taking away the flexibility in the functioning of such funds in order to reduce the risks involved might lead to a lack of interest in such

[14] 'Differential Economic Rights of AIF LPS under Threat', (2023), Nishith Desai and Associates, <https://www.nishithdesai.com/SectionCategory/33/Research-andArticles/12/29/NDA Hotline/10616/1.html> accessed 12 February 2024.

investments among the investors. Separate investment funds may also lead to a lack of investments in each fund since junior-class investors who want to invest alongside senior class investors in big funds may be unable to do so.

To deal with the concerns regarding the abuse of regulatory framework by NBFCs, SEBI may prescribe mandatory disclosure of the end-usage of the fund's commitments in its placement memorandum. It should also promote transparency in the functioning of AIFs and facilitate innovation which will benefit all classes of shareholders. Such reforms will be progressive rather than completely banning the investments in AIFs.

V. SUGGESTIVE LEGAL FRAMEWORK

A. Proposal For an Alternative Model

The Priority Distribution Model or any other alternative mechanism of distribution such as Pro-rata Rights and Pari-passu Rights have their advantages and disadvantages associated with them. Going with any one of them will have its problems as have been described above. In case, the PD Model is followed, SEBI’s concern about the arbitrary distribution of profits is a valid one. The issue of abuse by NBFCs is also to be considered. But completely banning the model is not a solution. Going for equal rights for all the investors without considering the other factors is also not a healthy alternative as it will demotivate some investors who want to take more risks and invest in such AIFs.

Instead, we can go for an Alternative Model of Investment based upon individual choice and share of investments. For example, an investor's choice of contribution in losses will determine his share in profits in proportionality

to his investment amount. In such a model, the percentage of profits and losses shared by an individual will be decided considering the three factors that are his contribution to the fund, the minimum length of investment, and the maximum amount of contribution in losses. Here, the investors will be given priority based on the share of investments, the length of their investments and the risks they are ready to take.

The investors who are ready to take more risks and contribute more at the time of losses will be given more profits and prioritised at the time of distribution of profits. In this model, the share of profits and losses will be equal, unlike the PD Model where the investors who are given priority at the time of profit distribution are the last ones to contribute to the losses. This will help in solving the SEBI's concern of arbitrary distribution. Also, the investors will have flexibility when it comes to their investments. This mechanism will ensure the fair disposal of profits and losses of AIFs and prevent any arbitrariness in disposal mechanisms.

B. Mandatory Disclosures in AIFs

SEBI has, vide its Circular[15] dated 5th February 2020, introduced a standard Private Placement Memorandum **("PPM")** in which disclosure of certain minimum level of information has been specified. The scope of information to be provided in the PPM investment charter (a document that provides information about the services offered to investors, grievance procedures, duties of investors etc.) should be broadened. Even the minute

[15] 'Disclosure Standards for Alternative Investment Funds (AIFs)', (2020), SEBI, <https://www.sebi.gov.in/legal/circulars/feb-2020/disclosure-standards-for-alternative-investment-funds-aifs-45919.html> accessed 13 February 2024.

information regarding the terms and conditions of preferential treatment should be specified to the investors.

Disclosures regarding customised benefits and profit sharing of the investments should be explicitly mentioned in the contractual terms. This provides the investors with the opportunity to negotiate for any conflict of interest[16]. If investors are not satisfied with the conditions of the agreement, they can refuse to continue with their investment.[17] In this situation, rather than switching investors, the managers should look at the points where conflict arises. After this, they should try to modify the contract to grant desirable protection to non-preferred investors.[18]

If the requirement of complete disclosure is voluntary, spill-over impacts arise due to the interrelated nature of the fund market.[19] This is because the voluntary disclosure model can provide a competitive disadvantage to the firm that voluntarily chooses to disclose the information. Since all other firms in the market have the option not to pay for the cost of the disclosure, firms that provide investors with accurate declarations are in a weaker position.[20] Thus, mandatory disclosure by the firms is imperative.

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[16] Andrew Ceresney, Dir., Div. of Enforcement, U.S. Sec. & Exch. Comm'n, Securities Enforcement Forum West 2016 Keynote Address: Private Equity Enforcement (2016) <https://www.sec.gov/news/speech/private-equity-enforcement.html> accessed 13 February 2024.

[17] *H.T. Hackney Co. v. Robert E. Lee Hotel*, 300 S.W. 1, 3 (Tenn. 1927).

[18] *Scott v. Davis*, [2000] 204 C.L.R. 333, 367 (Austi.) (citing *Int'l Harvester Co. of Australia Pty Ltd. v Carrigan's Hazeldene Pastoral Co.* [1958] 100 C.L.R. 644,652).

[19] 'Preqin, Key Due Diligence Considerations For Private Equity Investors', (2014), <https://www.preqin.com/docs/reports/Preqin-Special-Report-Due-Diligence-Private-Equity-Investors> accessed 13 February 2024.

[20] *Von Colson and Kamann v. Land Nordrhein-Westfalen,* Case 14/83, 1984 E.C.R. 1891.

C. Mitigating Regulatory Misuse: Enhancing Transparency and Investor Protection

Now, the problem that arises with the disclosures is that 'pooled fund' investors find it difficult to determine whether the manager is fully revealing all pertinent data regarding the interests of all the investors. Even after contractual negotiations, the stakeholders do not find themselves in a strong position to confirm the manager's compliance with contractual obligations.

For example, various AIFs offers "excuse rights" to certain investors granting them the right to abstain from participating in specific investments of pooled funds. There is a lack of transparency restricting the non-preferred investor's ability to understand the utility of their investments.

The Mandatory Disclosure Model prohibits unaccountable terms unless written notice regarding the information is provided[21]. The manager has the option to fulfill the suggested disclosure obligations by sharing side letters (with sensitive details about other investors removed) exit.[22] The specific sequence of the time when the specified conditions for the delivery of the proposed rule will apply varies, based on whether the recipient is a potential or current investor in the AIFs. Regarding potential investors, the AIFs managers must supply a written notice before the investor makes any investment. As for current investors, if any differential treatment has been extended to any investor, the manager should be obligated to notify the same.

[21] Michael J. Fishman & Kathleen M. Hagerty, 'Mandatory Versus Voluntary Disclosure in Markets with Informed and Uninformed Customers', (2003) 19 J.L. ECON. & ORG. 45.
[22] Hossein Nabilou, 'A Tale of Regulatory Divergence: Contrasting Transatlantic Policy Responses to the Alleged Role of Alternative Investment Funds in Financial Instability', (2017) 12 CAP. MKT. L. J. 94.

To fulfill the distribution requirement for existing investors, the AIFs must send a scripted notice to every investor. In case where an investor is in a 'pooled vehicle' of investment which is under the control of the manager, the manager must examine the contents of that pool to ensure that the notice reaches the investors within those pools. We think that this particular element of the disclosure rule would necessitate managers to regularly review and re-evaluate the selective terms offered to investors within the similar fund. As a result, investors would derive advantages by getting regular updates regarding the discriminatory terms extended to different investors within the similar fund.

Notices would equip the investors with the knowledge related to the status of similarly situated investors. Investors become aware of the better deals that other investors are procuring.[23] For example, the investor will receive the information when a manager provides a fee discount to a large, early-stage investor. After receiving this input the investor can also demand further information on additional privileges that large investors receive. The mechanism of enhanced transparency would provide investors with greater insights concerning the extent of exclusive treatment, the potential impact of such terms on the investment, and the probable expenses, consisting of compliance costs linked to these discriminatory terms.[24]

Another problem that will result in regulatory misuse is that compliance with the disclosure principles requires additional expenses for the

[23] George A. Akerlof, 'The Market for "Lemons": Quality Uncertainty and the Market Mechanism', (1970) 84 Q.J. ECON. 488.
[24] Lodewijk Van Setten & Danny Busch, 'Alternative Investment Funds in Europe: Law and Practice', (2014) 154.

lawyers, accountants and compliance consultants.[25] There is a high possibility that the managers directly or indirectly pass on the expenses to their investors. The non-preferred investors will likely be more prone to the increased cost. This is because the preferred investors have greater leverage to negotiate for reduced fees and expenses.[26] To address regulatory arbitrage, incentives related to regulations should be carefully considered[27]. If a regulation imposes costs on an industry, it should provide corresponding benefits to offset those costs.[28]

One recent illustration of such compensatory advantages is the European Union's Alternative Investment Fund Managers Directive **("AIFMD").**[29] The directive announces a passport mechanism for hedge funds, granting the investors the ability to market their products throughout the EU, once they are registered with an EU Member State. However, it is imperative to consider that these benefits need to be weighed against the regulatory expenses imposed on AIFs due to stringent regulations. It appears

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[25] Alexander K, Eatwell J and Dhumale R, 'The International Regulation of Systemic Risk', Review of Global Governance of Financial Systems (*Cooper RN* 2016) <https://doi.org/10.2307/20031858> accessed on 10 February, 2024.

[26] Douglas W. Arner and Michael W. Taylor, 'The Financial Stability Board and the Future of International Financial Regulation' (Cambridge University Press, 5 February 2016) <https://www.cambridge.org/core/books/abs/reconceptualising-global-finance-and-its-regulation/financial-stability-board-and-the-future-of-international-financial-regulation/C28EB52D54F47E0AE2A95149F9A25FB8> accessed 10 February 2023.

[27] Joel F. Houston, 'Chen Lin & Yue Ma, Regulatory Arbitrage and International Bank Flows', (2012), 67 J. FIN. 1845, 1846.

[28] George Loewenstein & Richard H. Thaler, 'Anomalies: Intertemporal Choice', (1989), 3 J. ECON. PERSP. 181, 181.

[29] Hossein Nabilou, 'Regulatory Arbitrage and Hedge Fund Regulation: The Need for a Transnational Response', (2017) 22 (4) FORDHAM J. CORP. & FIN. L. https://ir.lawnet.fordham.edu/jcfl/vol22/iss4/2/ accessed 17 February 2024.

that discouraging regulatory arbitrage can only be achieved by offering competitive advantages to firms following the robust pre-disclosure model.[30]

To abridge, in order to mitigate the losses caused by preferential treatment, AIFs should encourage the disclosure of conflicts of interests[31]. The managers should consistently adhere to their contractual obligations, and provide transparent disclosure of performance, fees, and expenses. It is crucial to thoroughly examine and assess the actual worth of the regulator's contribution, taking into account the expenses associated with any initiative, and also considering the existence of alternative investment fund options. Policymakers must aim to enhance the disclosure requirement at a minimal cost, because the burden of costs associated with policies aimed at assisting non-preferred investors largely falls on them, and the excessive expenses can potentially create a negative impact on competition.

VI. CONCLUSION

AIFs boost the overall development of the economy as well as the private growth of the investing individuals. The country needs such funds for the expansion of its investment markets and a single individual cannot pool in such a huge investment. The distribution of profits and losses among the investors of AIFs has always been an area of conflict. Usually, the PD Model is followed which provides preferential treatment. SEBI considering such

[30] Mariia Domina Repiquet, 'Regulatory Competition in European Partnership Law: A Case of Alternative Investment Funds', (2018) 10 (1) Amsterdam L.F <https://amsterdamlawforum.org/articles/10.37974/ALF.313> accessed 15 February 2024.
[31] J. S. Aikman, 'When Prime Brokers Fail: The Unheeded Risk To Hedge Funds, Banks, And The Financial Industry', (2010).

treatment to be unfair to some investors has completely banned any future investment in AIFs through such model.

The model of priority distribution is inherently not a bad element. It has the potential to offer a wide range of benefits to investors, managers and AIFs as a whole. The contemporary need of the AIFs market is not to restrict the PD Model but to limit the harms caused by its misuse. Analyzing all the distribution mechanisms the authors believe that there is no need to explicitly ban the model of preferential treatment. Thus, they proposed an Alternative Model based upon mandatory disclosure requirements as well as proportional distribution of profits and losses taking into consideration the contribution to the fund, the minimum length of investment, and the maximum amount of contribution in losses.

Imposing an absolute ban on the investments in AIFs based on PD Model would exert a dampening effect on the overall investments while reducing the growth of the economy. Instead, going with the proposed model as an alternative to the existing framework would lead to the fair distribution of profits and losses along with the individual satisfaction of the investors. This would mark the beginning of a new era for future investments in AIFs, bringing about positive changes in the investment landscape.