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Fund Management in IFSC

October 2025

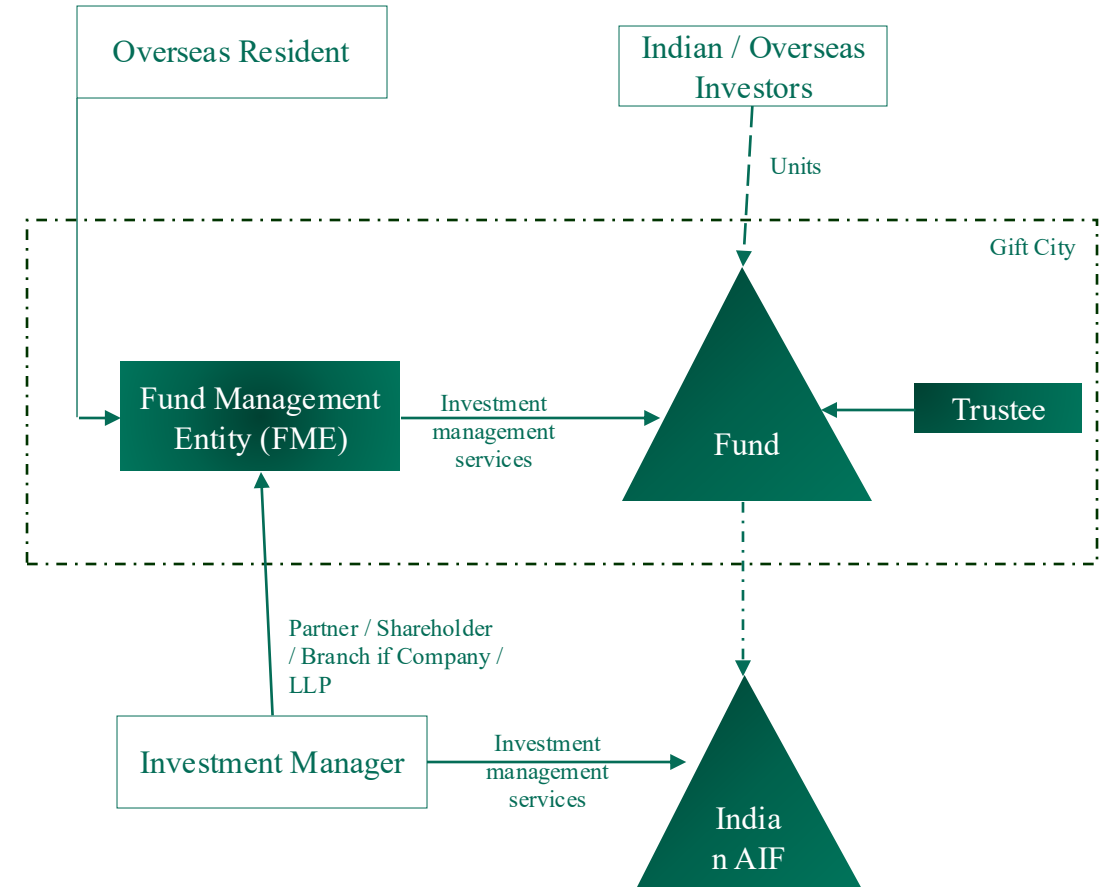
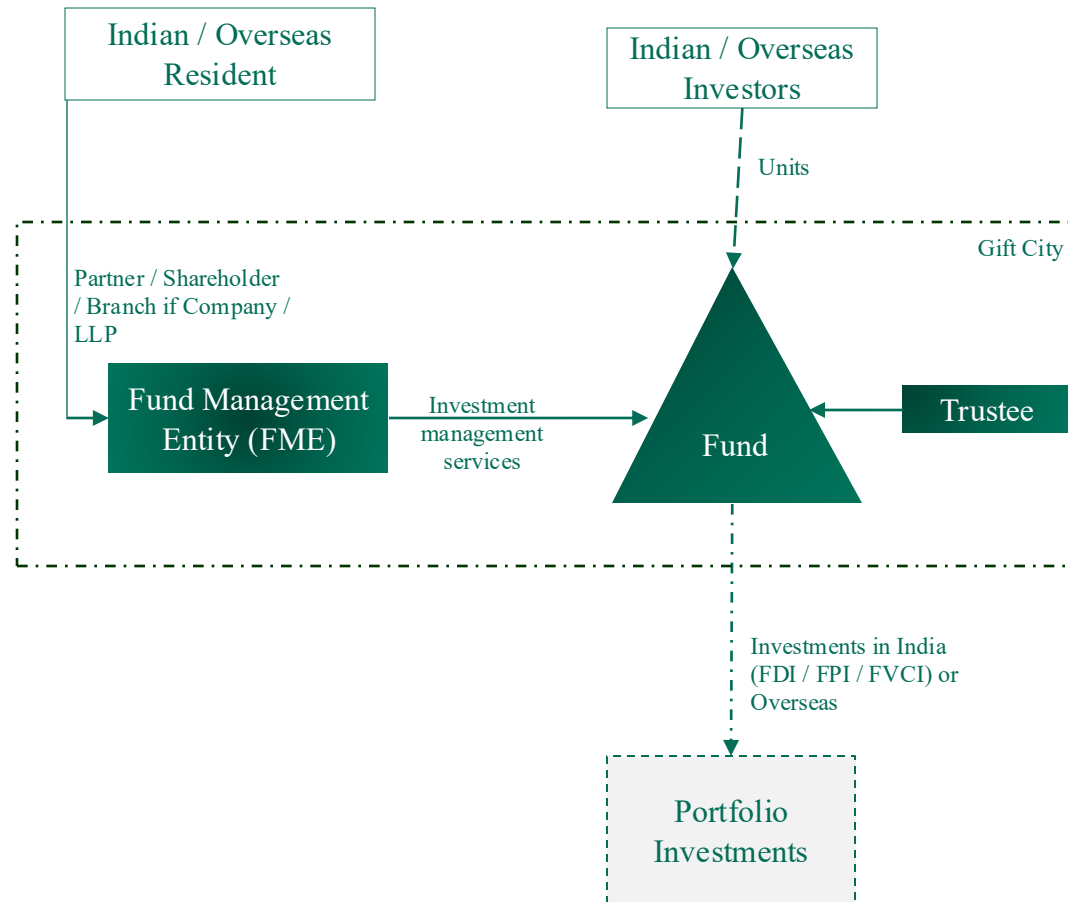
The International Financial Services Centre Authority (Fund Management) Regulations, 2022 (**FM Regulations**) became effective on 19 May 2022

The International Financial Services Centres Authority (**IFSCA**) has benchmarked the funds regime with the global best practices

The FM Regulations provide consolidated registration and compliance requirements for fund managers while prescribing operating guidelines for funds / ancillary fund management activities

Amendment to the FM Regulations– The IFSCA amended the FM Regulations in its entirety and introduced the updated FM Regulations in 2025

Traditional Fund Structures in GIFT City



Key Stakeholders

Participant	Role
Settlor	Client to identify the person that will settle the trust (i.e., the fund) - the FME can be the settlor.
Trustee	Client to identify the Trustee - can be a professional trustee such as Vistra, Catalyst, Orbis, Axis Trustee, etc. Can also be an in-house trustee with presence in IFSC.
Fund Management Entity (FME)	▪ FME can be either subsidiary or branch and registered with the International Financial Services Centres Authority (IFSCA) as a FME (Non-retail). ▪ FME can also undertake portfolio management activities. ▪ Branch can be only in case Indian entity is regulated by financial services regulator.
Contributor/Investor	The contributors would be the “beneficiary” of the Fund. Investors will be beneficiaries along with the fund management entity.
Custodian	Category III AIF (open-ended restricted scheme) or Fund having corpus > US\$ 70 million
Registrar and transfer agent (RTA)	RTA is required to be appointed to enable the collection of applicable stamp duty on the issue, transfer, and sale of units of Fund.

Registration Categories: Brief Overview (1/3)

- Registration of a fund management entity (FME) can be under any of the following three categories:
 - ❖ **Authorised FME** – least regulatory oversight
 - ❖ **Registered FME (Non-Retail)** – moderate regulatory oversight
 - ❖ **Registered FME (Retail)** – high regulatory oversight
- A Registered FME (Retail) can undertake activities of all three categories of FMEs, while a Registered FME (Non-Retail) can undertake the activities permitted for Registered FME (Non-Retail) as well as Authorised FMEs.
- An Authorised and Registered FME (Non-Retail) can be formed as a:
 - ❖ *Company*;
 - ❖ *Limited liability Partnership*; or
 - ❖ *their branch* (if already registered or regulated by another financial services sector regulator).
- A Registered FME (Retail) can only be in the form of a company or its branch.
- An FME operating as a branch is required to comply with the following conditions (i) ring fence the operations of the branch (ii) comply with the minimum net worth requirements which may be maintained at the parent level (iii) maintain minimum capital specified by the IFSCA and (iv) any other requirements as may be specified by the IFSCA.
- The FM Regulations provide for certain qualifications and criteria for FME registration as provided in following slides.

Registration Categories: Brief Overview (2/3)

Criteria	Authorised FME	Registered FME (Non-Retail)	Registered FME (Retail)
Investors	Accredited Investors + Investors investing above US\$ 250,000 (USD 60,000 in case of employees/ Directors/ Designated Partners/ Partners of the FME).	Accredited Investors + Investors investing above US\$ 150,000 (USD 40,000 in case of employees/ Directors/ Designated Partners/ Partners of the FME).	All investors, including retail investors.
Permissible Activities	Venture capital scheme and family investment fund.	Activities of Authorised FME and (i) Restricted Schemes; (ii) Special Situation Funds; (iii) private placement of investment trusts; (iv) portfolio management; and (v) investment advisory.	Activities of Registered FME (Non-Retail), and (i) Retail Schemes; (ii) Exchange Traded Funds; and (iii) public offer of investment trusts.
Net Worth	USD 75,000/-	USD 500,000/-	USD 1,000,000/-

Registration Categories: Brief Overview (3/3)

Criteria	Authorised FME	Registered FME (Non-Retail)	Registered FME (Retail)
Human Resources / Experience	1 principal officer (PO) (PO must have 5 years of relevant experience and professional qualification / PG degree / PG diploma from a recognized university, or certification from IFSCA, SEBI or international regulator).	1 PO and 1 key managerial personnel (KMP) (Should have the same qualifications as the PO of an Authorised FME).	1 PO and 2 KMP (Should have the same qualifications as the PO of an Authorised FME) + 4 directors (of which 50% to be independent).
Any FME that is managing an AUM of at least USD 1 billion, excluding the AUM of fund of funds schemes, as at the close of a financial year shall, in addition to the principal officer and compliance officer, appoint an additional KMP, who shall be assigned with the responsibility of fund management			
Track record and reputation of fairness	Employees shall have prescribed relevant experience.	Employees shall have prescribed relevant experience.	FME/Hold Co to have 5 years of experience with AUM of USD 200 Mn + and 25000 + investors; or Person in control holding 25% + in FME should have been carrying financial services business for 5+ years, for at least 1,000 investors on assets of at least USD 50 Mn, and such FME has a net worth of at least USD 2 Mn or such other amount as may be specified

Types of permissible schemes: A brief overview

- The categories of FME outlined above, may float the following three types of schemes:
 - ❖ **Venture Capital Scheme**
 - ❖ **Restricted Scheme**
 - ❖ **Retail Scheme**
- Venture Capital Scheme and Restricted Scheme can be constituted as a Company, LLP or a Trust. Retail Scheme can be constituted as a Company or a Trust
- Each scheme needs to have a minimum corpus of US\$ 3 Million
- FM Regulations provide for certain details and investment criteria for each scheme.
- Retail Schemes are akin to mutual funds and have been excluded for the purposes of this presentation hereonforth.



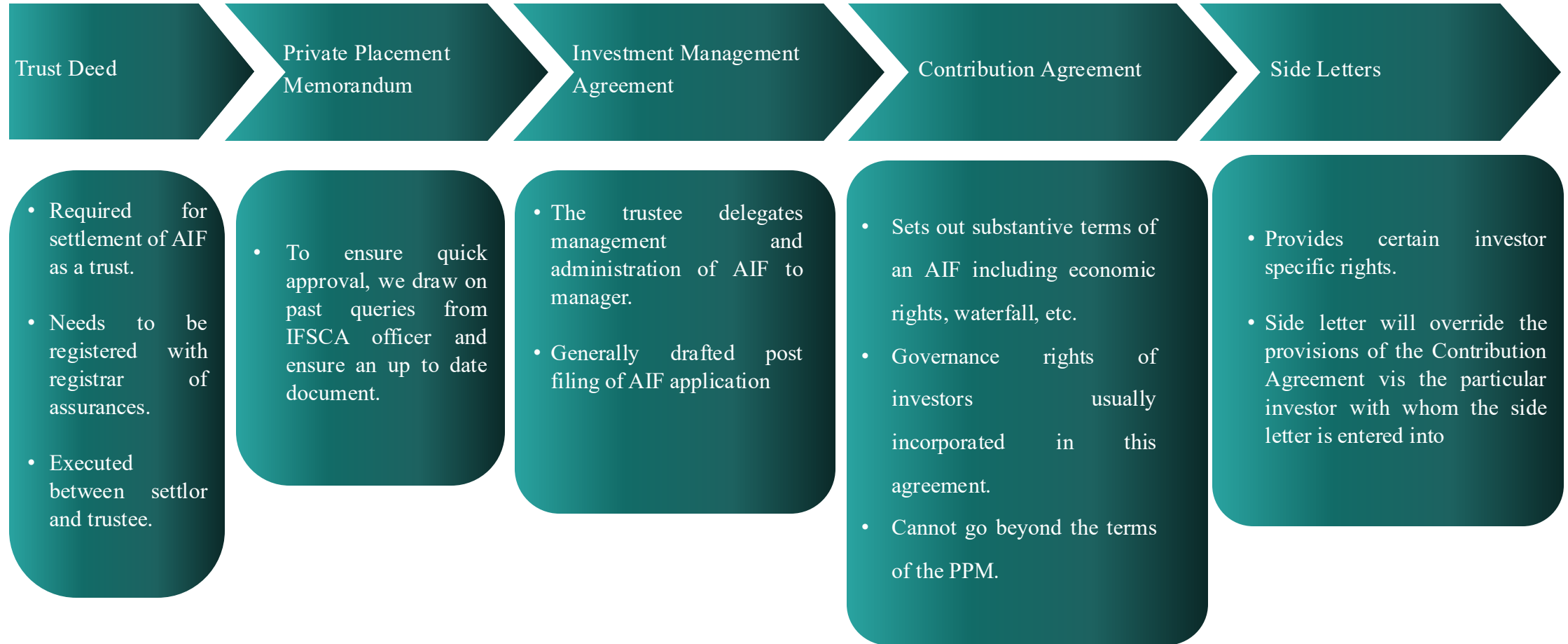
VCS and Restricted Scheme

Criteria	Venture Capital Scheme (VCS)	Restricted Scheme
Permissible Investments	(i) securities of unlisted and listed (or to be listed) entities; (ii) money market instruments; (iii) debt securities; (iv) securitised debt instruments; (v) other venture capital schemes; (vi) units of mutual funds and AIFs; and (vii) investment in limited liability partnerships.	(i) Investments permitted under VCS, (ii) other investment schemes; (iii) derivatives including commodity derivatives; and for a close ended scheme (iii) up to 20% of its corpus in physical assets such as real estate, art, bullion, etc.
Investors	Less than 50	Less than 1000
Tenure & Scheme	Minimum 3 years (close ended)	Minimum 1 year (close ended) and no tenure limitation for open ended
Investment (not-accredited)	Minimum US\$ 250,000	Minimum US\$ 150,000
Scheme Launch	Green channel (open for subscription immediately on filing)	Green channel for accredited investors; PPM to be filed 21 working days prior to fund launch in other cases

VCS and Restricted Scheme (Contd.)

Criteria	Venture Capital Scheme (VCS)	Restricted Scheme
FME Contribution	If target corpus < US\$30 Mn: Minimum 2.5% but not exceeding 10% of the corpus If target corpus > US\$30 Mn: Minimum US\$750,000 but not exceeding 10% of the corpus	Close ended Scheme: Same as VCS Open Ended Scheme: If target corpus < US\$30 Mn: Minimum 5% but not exceeding 10% of the corpus If target corpus > US\$30 Mn: Minimum US\$1,500,000 but not exceeding 10% of the corpus
Exemption from 10% ceiling – where (i) the FME / associates are offshore with no Indian ultimate beneficial owners, and (ii) not more than one-third of corpus is invested in a single investee company and its associates		
Maximum Corpus	US\$ 200Mn	NA
Restrictions	80% of the assets under management ('AUM') to be in companies incorporated for less than 10 years or other VCS	For an open-ended scheme, maximum investment in unlisted company shall not exceed 25% of the corpus of the scheme

Key Documents



Annex 1: Tax Framework – Scheme and Investors

Venture Capital Schemes shall be construed as Category I AIFs and Restricted Schemes (Non-Retail) shall be construed either as Category I / II / III AIF (as the case may be), under Income tax Act, 1961 (ITA)

Category I / II AIF:

- Income other than “business income” subject to tax pass-through, taxable directly in the hands of investors
- Business income is eligible for tax holiday (for 10 consecutive years out of first 15 years)

Category III AIF:

- Tax payable at AIF level and Investors are completely tax exempt
- AIF enjoys concessional tax rate on interest and dividend income at 10% and tax exemption on capital gains on debt securities / derivatives

Non-resident investors are exempt from filing tax return and obtaining Permanent Account Number, an Indian tax registration, provided such investor's India sourced income is solely from investments in the AIFs and subject to deduction of applicable taxes (for investors in Category I/II AIF)

Interest payable to a non-resident in respect of monies borrowed exempt from income tax

Exemption available from stamp duty, Securities Transaction Tax and Commodities Transaction Tax for transactions carried out on IFSC stock exchanges

Annex 2: Tax Framework – FME

Business income is eligible for tax holiday (for 10 consecutive years out of first 15 years calculated from the date of approval as FME)

The Minimum Alternate Tax (MAT)/ Alternate Minimum Tax (AMT) rate chargeable at 9%. MAT is not available to FMEs set up as a company which has opted for new tax regime under domestic tax law

The dividend distributed by FME may be taxable in the hands of its shareholders under the domestic tax law

Supply of services by FMEs to schemes in IFSC is exempt from Goods and Services Tax ('GST'), i.e., there will be no GST on management fees payable to the FME

FME registered as a branch will be considered to be a “unit” for the purposes of IFSC and taxed as such

Annex 3: Branch v LLP v Company (1/4)

Parameter	Branch (of Company or LLP only)	LLP	Company
Category Permitted	Authorised, Non-retail	Authorised, Non-retail	Authorised, Non-retail, Retail
Retail FME Permitted	No	No	Yes
Net Worth Requirement	Yes: Parent may earmark capital/ring-fence; minimum net worth must be maintained at parent entity level, subject to IFSCA satisfaction	LLP itself must hold net worth	Company itself must hold net worth
Track Record/Experience	Yes: Parent entity's experience, AUM, investors, compliance record can be counted	LLP's record, or Designated Partners' experience required	Company, Promoter, Director, Officer, or controlling shareholder's record valid
Principal Officer & KMPs	Must be appointed in IFSC branch, but can be parent employees deputed	LLP must appoint in IFSC	Company must appoint in IFSC

Annex 3: Branch v LLP v Company (2/4)

Parameter	Branch (of Company or LLP only)	LLP	Company
Speed	Quick to setup, 2 weeks maximum	3-6 weeks	3-6 weeks
Governance	Yes: Parent's governance frameworks apply, must "ring-fence" IFSC ops; Board/Committee oversight requirements fulfilled by parent	LLP as per agreement, partners	Company Board (Retail: 4 directors, 50% independent)
Application Process	Parent applies for branch recognition	LLP applies directly	Company applies directly
Maximum Investors per Scheme	As per parent's policies and checks, but must comply with IFSC limits	LLP policies and compliance	Company policies and compliance
FME/Associate Contribution	Parent or branch may contribute, as permitted by IFSCA	LLP must contribute	Company must contribute

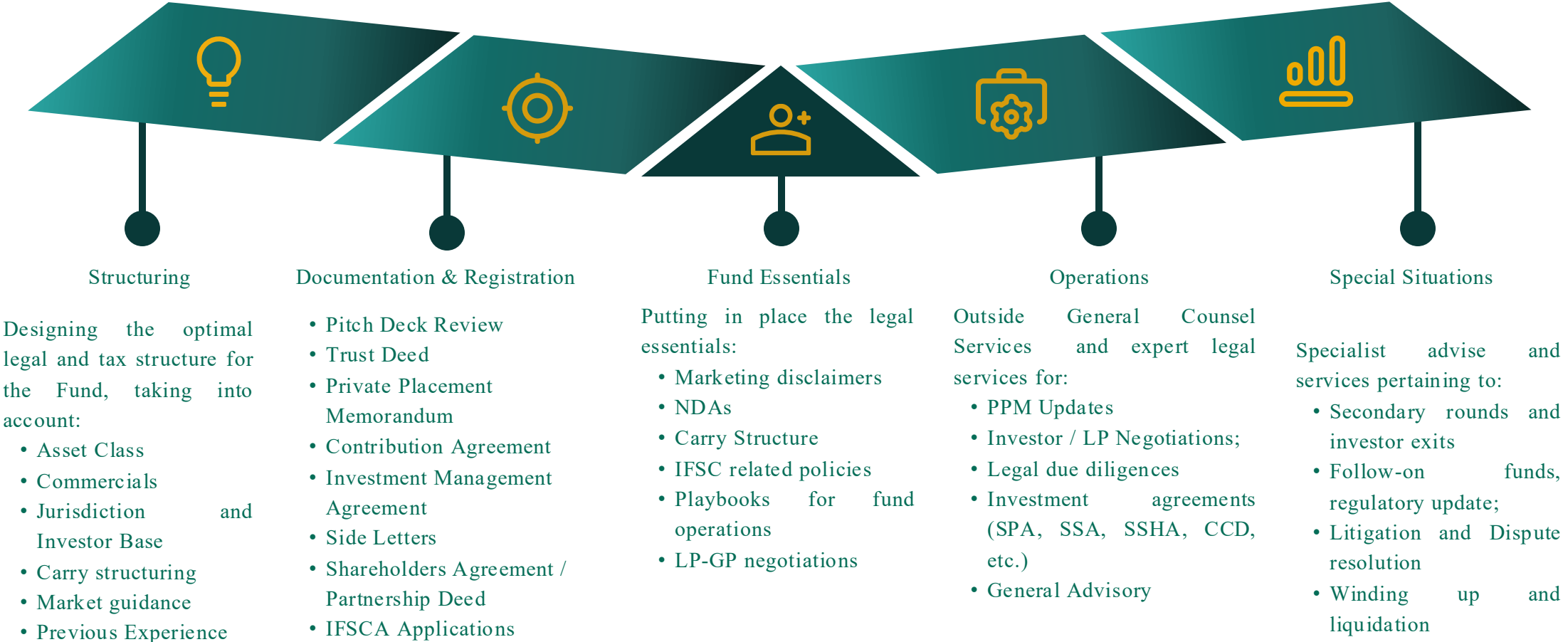
Annex 3: Branch v LLP v Company (3/4)

Parameter	Branch (of Company or LLP only)	LLP	Company
Eligible for Portfolio Mgmt	Yes (via parent's prior experience)	Yes (partners' or LLP experience)	Yes (company/promoter/director experience)
NAV Disclosure	Parent's disclosure standards can apply, subject to IFSC frequency	LLP disclosure standards	Company disclosure standards
Winding Up/Closure	Parent entity initiates; must comply with authority and branch closure rules	LLP wind-up/surrender + IFSCA	Company wind-up/surrender + IFSCA
Conversion/Transfer	Can be converted to company / LLP if parent restructures; IFSC approval needed	NA	NA
Tax Holiday	100% exemption for 10 of 15 years	100% exemption for 10 of 15 years	100% exemption for 10 of 15 years

Annex 3: Branch v LLP v Company (4/4)

- ❖ Branch obligations (net worth, experience, governance, FME contributions, winding up) can often be fulfilled at parent entity level with ring-fencing and explicit undertakings to IFSCA.
- ❖ Branch must maintain adequate accounts and ring fence its operations from those of parent entity.
- ❖ For LLP and Company, all operational obligations must be met directly by the entity itself (except where regulations permit group experience/promoter/controlling shareholder credentials).
- ❖ Principal Officer & KMPs: For the branch, officers must be based in IFSC but may be deputed from parent entity.
- ❖ FEMA: Transactions between parent and branch are treated as foreign exchange transactions and must comply with exchange control laws including overseas investment laws.
- ❖ Transfer Pricing: Although units in the GIFT IFSC are treated as residents under the Income Tax Act, transactions between the Indian head office and its branches in GIFT are regarded as domestic transactions for transfer pricing purposes. Consequently, transfer pricing provisions apply to these transactions, and they must comply with the arm's length principle, maintain meticulous documentation, and undergo mandatory certification by a chartered accountant as required under Indian transfer pricing rules.

Annex 8: Legal Service Providers Scope



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Thank you.

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