CIRCULAR

F. No. IFSCA-DSF0SFHB/1/2025-Capital Markets **September 25, 2026**

To,

Fund Management Entities (FMEs) in International Financial Services Centres (IFSCs)

Dear Sir / Madam,

Subject: Framework for differential distribution in Venture Capital Schemes and Restricted Schemes to facilitate blended finance and other fund structures

1) Reference may be drawn to sub-regulation (5) of regulation 23 and sub-regulation (6) of regulation 35 of the International Financial Services Centres Authority (Fund Management) Regulations, 2025 (FM Regulations), wherein, with a view to provide flexibility in raising funds from investors having varied risk appetite and facilitate blended finance and other fund structures, the differential distribution mechanism for Venture Capital Schemes and Restricted Schemes has been enabled.

2) Blended finance is strategically deployed to combine concessional or philanthropic capital with commercial capital to fund projects which are socially desirable but may be commercially unviable. Blended finance is increasingly globally recognised as a promising approach to bridge the funding gap in such projects.

3) An Expert Committee on Sustainable Finance set up by the Authority recommended to facilitate blended finance mechanism at IFSC for attracting concessional financing from Multilateral Development Banks and Development Financial Institutions, thereby reducing the financial risks of private and commercial investors.

4) Further, the Authority has also received representations from the industry associations and market participants to permit issuance of multiple classes of units to facilitate differential distribution in schemes which are meant for sophisticated investors to meet the risk and return profile of different categories of investors.

5) Accordingly, pursuant to the approval of the Authority and subsequent amendments to the FM Regulations, this Circular, containing the Framework for differential distribution in Venture Capital Schemes and Restricted Schemes, is issued in exercise of the powers conferred under sections 12 and 13 of the International Financial Services Centres Authority Act, 2019, read with sub-regulation (5) of regulation 23 and sub-regulation (6) of regulation 35 of the FM Regulations, and the said Framework is annexed hereto.

A copy of this Circular is available on the International Financial Services Centres Authority website at www.ifsca.gov.in.

Yours faithfully,

Sd/-

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Annexure

Framework for differential distribution in Venture Capital Schemes and Restricted Schemes to facilitate blended finance and other fund structures

CHAPTER I

Preliminary

1. Short Title and Commencement

(1) This Circular shall be called the "Framework for differential distribution in Venture Capital Schemes and Restricted Schemes to facilitate blended finance and other fund structures".

(2) This Circular shall come into force with immediate effect.

2. Applicability

This Circular shall apply to FMEs launching Venture Capital Schemes or Restricted Schemes under Part A and B, respectively, of Chapter III of FM Regulations, with multiple classes of units, namely senior units and junior or subordinate units carrying differential distribution rights (such schemes are hereinafter collectively referred to as 'Eligible Schemes').

CHAPTER II

Issuance of multiple classes of units

3. Issuance of units by FMEs launching Eligible Schemes

(1) An Eligible Scheme may issue "Senior units", "junior units" or "subordinate units" as explained in sub-regulation (5) of regulation 23 and sub-regulation (6) of regulation 35

of the FM Regulations, as may be applicable, wherein there shall be only one class of senior units and the other classes shall be categorised as junior or subordinate units.

(2) The senior units allotted to investors shall not differ in terms of risk, priority of returns or loss absorption; however, such units may differ in terms of fees, currency and other operational aspects.

(3) The junior or subordinate units may be converted into a superior class of units, subject to the condition that conversion-related milestones, methodology for computing such milestones, triggers, formulae, and conditions, as may be applicable, are expressly disclosed in the Placement Memorandum ("PPM").

CHAPTER III

Differential distribution, disclosures and acceptance of grants

4. Structures under differential distribution

The investors with junior or subordinate distribution rights in an eligible scheme, in any one or a combination of the following, may:

(a) bear portfolio losses in excess of their pro-rata share;

(b) accept lower financial return than their pro-rata share;

(c) accept zero financial returns from their investments;

(d) provide grant to an ESG Scheme in terms of sub-clause (2) of clause (6) below.

5. Disclosures in the PPM of Eligible Scheme

(1) The PPM shall adequately and prominently disclose details regarding the multiple classes of units and the rights attached thereto in respect of distribution, including distribution on an ongoing basis, upon redemption and upon winding up.

(2) Such disclosure shall be supplemented with suitable examples in a tabular manner illustrating the distribution waterfall under various scenarios which, *inter alia*, involve loss of capital to the holders of junior or subordinate classes of units.

(3) The PPM shall suitably disclose the risks arising due to such structures, especially highlighting the additional risks to each class of units.

(4) In case of any investment by the FME or its associate(s) in terms of regulation 28 or regulation 40, as the case may be, the FME shall adequately and prominently disclose in the PPM the class of units proposed to be allotted upon such investment.

6. Additional Conditions for ESG Schemes

(1) Eligible Schemes filed with the Authority as ESG Schemes in terms of Circular titled as "Disclosures by Fund Management Entities for Environmental, Social or Governance (ESG) Schemes" dated January 18, 2023 shall disclose in the PPM the manner in which the scheme's investment strategy is expected to align with one or more of the United Nations Sustainable Development Goals ("SDGs"), including the rationale for such alignment.

(2) Such ESG Schemes may accept funds in the form of grants, subject to the following:

(a) Limit on grant acceptance: The aggregate amount of grants accepted by an ESG Scheme shall not be more than forty-nine per cent. (49%) of the corpus of the scheme.

Explanation. - For the purposes of calculating this limit, "corpus" shall include commitments received towards grant and non-grant contributions.

(b) **Issuance of social units:** Grants accepted by an ESG Scheme may be against a separate class of units issued by the scheme, designated as "social units", or may be accepted without issuance of such units, as disclosed in the PPM, and agreed between the FME and the grant contributor. In such cases, the rights, limitations and restrictions and details of issuance or non-issuance of social units shall be prominently disclosed in the PPM.

(c) **Grants from foreign sources:** Grants accepted from foreign sources shall be in accordance with the provisions of the Foreign Contribution (Regulation) Act, 2010 (42 of 2010), to the extent applicable.

(d) **Fees and expenses:** Grants accepted by an ESG Scheme shall not form part of the corpus for the purpose of computation of fees and expenses payable to the FME. The FME shall ensure that the independent valuer appointed for the scheme certifies compliance with this requirement.

(e) **Avoidance of conflict:** The FME shall establish and maintain a written policy for the acceptance, administration, and deployment of grants and this shall be disclosed in the PPM. Where a grant contributor imposes any conditions on the deployment of grants, such conditions shall be:

(i) consistent with the investment thesis of the scheme; and
(ii) subject to due diligence by the FME, to ensure that such conditions do not create a conflict with the FME's fiduciary duties to other investors in the scheme.

(f) **Reporting and audit:** Grants accepted by an ESG Scheme shall be separately accounted for in the audited annual financial statements of the scheme.

(g) **Winding up:** Subject to regulation 131 of the FM Regulations, in case the grants remain unutilised upon the winding up of the scheme, such grants shall be returned to the respective grant contributor(s).

CHAPTER IV

Minimum Investment and other conditions

7. Minimum investment amount for subscription

The minimum investment amount for an investor to subscribe to the junior or subordinate classes of units of the Eligible Schemes shall be USD 2 million;

Provided that the minimum investment shall be USD 1 million in case of an accredited investor;

Provided further that the minimum investment limit shall not be applicable in case of grants.

Explanation. – For the purpose of this Circular, 'Accredited Investor' shall mean an investor who satisfies the eligibility criteria in terms of clauses 1(c), 1(d), 1(e) and 1(f) of the Circular titled as "Accredited Investors in IFSC" dated January 25, 2024.

8. Other conditions to be complied with by the FMEs in case of Eligible Schemes

The FME and Key Managerial Personnel ("KMPs") of an Eligible Scheme offering differential distribution under this framework shall undertake due diligence to ensure that:

a) the amount invested by the Eligible Scheme by way of debt instruments shall not be utilised, directly or indirectly, by the investee company to discharge any outstanding debt obligation owed by it towards:

(i) the investors regulated by financial sector regulator (such as banks, finance

companies, insurance companies, etc.) or the associates of such investors; and
(ii) the FME or its associates;

Provided that the above condition shall not apply where the contribution from each investor, together with its associates, does not exceed 20% of the corpus of the scheme.

b) the scheme of the FME shall not facilitate circumvention of any laws, including direction of the Government of India, Authority or other financial sector regulators in India;

c) the Net Asset Value (NAV) for each class of units is computed by an independent valuer, in accordance with regulations 26, 27, 38 and 39 of the FM Regulations, as the case may be, concerning valuation and computation of NAV, after considering the disclosures in the PPM and the documented process for calculating NAV.

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