PRESS RELEASE

NOTIFICATION OF IFSCA (FUND MANAGEMENT) REGULATIONS, 2025

The IFSCA (Fund Management) Regulations, 2025 (hereinafter referred to as 'FM Regulations 2025') have been notified in the Official Gazette on February 19, 2025. The FM Regulations 2025 replace the IFSCA (Fund Management) Regulations, 2020, which were notified on April 13, 2022.

In line with the vision of the Government of India to enhance the ease of doing business, in the Union Budget for FY 2023-24, the Hon'ble Union Finance Minister announced that:

"*To simplify, ease and reduce cost of compliance, financial sector regulators will be requested to carry out a comprehensive review of existing regulations. For this, they will consider suggestions from public and regulated entities....*"

Guided by the above announcement and in fulfilment of its continuous endeavour to develop the GIFT IFSC as a hub for international financial activities, IFSCA undertook an extensively consultative approach to review the IFSCA (Fund Management) Regulations, 2022, which, *inter alia*, includes consultation with the Fund Management Advisory Committee (FMAC) of IFSCA, discussions with senior industry leaders organized as part of *Chintan Shivir*, and Public Consultation by issuance of Consultation Papers.

The Authority in its meeting held on December 19, 2024 approved the proposal on review of IFSCA (Fund Management) Regulations, 2022 and to notify the reviewed Regulations. The publication of the FM Regulations 2025 in official gazette today marks the culmination of this review exercise.

In the process of review, IFSCA has ensured regulatory consistency in the overarching principles of registering the Fund Management Entity (FME) and flexibility accorded to FMEs to undertake host of fund management activities.

The major focus of the review exercise has been to usher in further ease of doing business, clarify the intent of regulatory provisions, wherever required, and introduce safeguards as are deemed necessary for the protection of investors' interest.

Following points encapsulate the key reforms carried out in FM Regulations 2025:

A. Non-Retail Schemes (Venture Capital Schemes and Restricted Schemes)

1. The minimum corpus of scheme has been reduced from USD 5 Mn to USD 3 Mn, enabling FMEs to commence investment activities upon reaching a lower threshold of corpus.

2. The validity of scheme's PPM is increased to 12 months from IFSCA's communication regarding taking it on record. This will provide more time to FMEs to raise the minimum corpus, which has also been reduced from USD 5 Mn to USD 3 Mn.

   This is expected to provide a significant boost to the ease of doing fund management activities in IFSC.

   Further, owing to their unique nature, <u>open-ended schemes have been permitted to commence the investment activities upon achieving an investment of USD 1 Mn</u> and the minimum corpus of USD 3 Mn shall be achieved within 12 months period.

3. The contribution by FME / its Associate(s) in a scheme, which was restricted at 10%, has now been permitted up to 100%, subject to certain conditions.

4. A provision for joint investments by 2 individuals with specific relationships has been provided for non-retail schemes.

5. The categorization for AIFs and Family Investment Funds (FIFs) has been streamlined for better clarity.

6. Schemes have been restricted from buying or selling securities from associates, other schemes of the FME or its associates, or a major investor (who has committed to invest at least 50% of the corpus of the scheme), unless prior approval has been obtained from seventy-five percent (75%) investors in the scheme by value, wherein the major investor shall be excluded from the voting process if the transaction is with the major investor. This measure is intended to mitigate such transactions which may not be in the best interest of the investors.

7. Considering their unique nature, several carve-outs from the regulatory requirements have been provided to the fund of funds schemes to facilitate creation and operation of feeder vehicles in IFSC in a cost-effective manner. In this regard, the definition of 'Fund of Funds Scheme' has also been amended to ensure objectivity.

   For example, the valuation of scheme's assets by an independent service provider is exempted for fund of funds schemes if the underlying fund has been valued by an independent service provider. Similarly, the requirement to appoint a custodian in IFSC has been exempted for fund of funds schemes if the underlying fund has appointed a custodian.

B. Manpower requirements for FMEs

1. The requirement to obtain prior approval of IFSCA for the appointment of KMPs has been dispensed with and the FMEs shall henceforth be required to only intimate the same to IFSCA. A Circular in this regard, specifying the timelines, formats, etc., shall be issued by IFSCA shortly.

2. FMEs managing an AUM of at least USD 1 Billion, wherein the AUM of fund of funds scheme shall not be considered, as at the close of a financial year shall be required to appoint an additional Key Managerial Personnel (KMP) within 6 months from the end of the financial year.

3. The requirement of additional KMP for Registered FME (Retail) may be met before filing a Retail Scheme or ETF with the IFSCA.

4. The requirements regarding educational qualification and work experience of the KMPs have been streamlined and broadened to provide certainty to the FMEs regarding the eligibility criteria and to enlarge the talent pool that may be recruited by the FMEs for the KMP positions. The measures are proposed to widen the pool of eligible candidates to man the KMP positions and also streamline the process.

5. In order to ensure continued competence, employees of FMEs will be required to undergo certifications from such institutions as may be specified by IFSCA.

C. Registered FME (Retail) and Retail Schemes

1. The requirement of 'sound track record' for a Registered FME (Retail) has been clarified to take into account the fund management experience of other entities within the group of the FME. For the alternative criteria, where the requirements regarding the experience of handling a higher AUM and number of clients are not being met, greater clarity has been provided in terms of relevant experience of person(s) having significant shareholding in the FME, while also specifying a higher net worth requirement for the FME.

2. In line with the changes made for Non-Retail Schemes, the minimum corpus has been reduced from USD 5 Mn to USD 3 Mn and additional flexibility has been provided to open-ended schemes.

3. Considering the distinct nature of index, sectoral, thematic and fund of funds schemes, prudential norms have been amended to provide the necessary operational flexibility to them.

4. In line with the Non-Retail Schemes, an effort towards easing the conditions for fund of funds schemes has been made for the Retail Schemes as well.

   For example, the restrictions in retail scheme such as single company, single sector, etc., have been disapplied to fund of funds scheme, if the underlying fund(s) satisfy the investment restrictions specified in the FM Regulations 2025. Similarly, the valuation of scheme's assets by an independent service provider is exempt for fund of funds scheme if the underlying fund(s) have been valued by an independent service provider.

5. In an endeavour to reduce the compliance burden, the requirement of listing of close-ended Retail Schemes on recognized stock exchanges has been made optional if

minimum amount of investment by each investor in the scheme is at least USD 10,000.

D. Portfolio Management Services

1. In order to further boost PMS activities and in line with the provisions in other jurisdictions, the minimum investment amount has been reduced to USD 75,000 from USD 150,000.

2. In addition to the various modes of handling client's money already provided to the FMEs providing PMS, it has now been permitted that clients under PMS may transfer their funds in a designated broking account which may be then managed by the FME under PMS, subject to certain safeguards.

The above measures, combined with the amendments proposed in Section 9A in Income Tax Act, 1961, are expected to evolve further avenues for expansion of PMS activity in GIFT IFSC.

E. Other key matters

1. Clarity has been provided with respect to the appointment of custodian in IFSC. Further, an adequate window of 12 months has been provided to FMEs to comply with this requirement.

2. The "fit and proper" criteria have been streamlined. .

3. For Non-Retail and Retail Schemes, pending deployment of money, in addition to existing permitted financial products and instruments, parking in bank deposits and overnight schemes has also been permitted.

4. In order to aid in the global expansion of their operations, FMEs have been permitted to open branches or representative offices in other jurisdictions for the purpose of marketing their offerings and client service, without requiring any prior approval from IFSCA. Only an intimation to IFSCA shall be considered to be a sufficient compliance for this purpose.

5. Certain provisions on valuation by credit rating agencies, restrictions in retail schemes, family investment funds, etc., issued by way of circular in the past, have also been subsumed in the FM Regulations 2025.

While the press release provides a summary and an overview, for complete text of the notified FM Regulations 2025, the market participants and public should refer to the notified regulations which is available on the IFSCA website (Link: https://shorturl.at/PTpNk).

February 19, 2025

Gandhinagar