INTERNATIONAL FINANCIAL SERVICES CENTRES AUTHORITY

Twenty third Authority Meeting held on 26.03.2025

Gist of Agenda Item: Framework for transition to IFSCA (Fund Management) Regulations, 2025

1. Objective

This memorandum seeks approval of the Authority to provide a streamlined pathway to the Fund Management Entities (FMEs) to transition to the newly instituted IFSCA (Fund Management) Regulations, 2025.

2. Background

2.1. Pursuant to an extensive consultation process, IFSCA submitted the proposal to review IFSCA (Fund Management) Regulations, 2022 (hereinafter referred to as "FM Regulations 2022") to the Authority in the meeting held in December 2024, wherein the proposal for the IFSCA (Fund Management) Regulations, 2025 (hereinafter referred to as "FM Regulations 2025") was approved. Thereafter, the FM Regulations 2025 were notified in the Official Gazette and came into effect on February 19, 2025, thereby superseding the IFSCA (Fund Management) Regulations, 2022.

2.2. Among the various changes carried out in the FM Regulations 2025, the following have been told to have significantly aided in the ease of doing business (EoDB) for the fund management industry in IFSC:

2.2.1. **Reduction in the quantum of minimum corpus of Non-Retail Schemes**: Under FM Regulations 2022, the minimum size of corpus for Non-Retail Schemes was specified as USD 5 Million. Under FM Regulations 2025, this threshold has been brought down to USD 3 Million. Therefore, a close-ended scheme may now commence investment activities upon reaching the minimum corpus of USD 3 Million. Further, for Category III Restricted Schemes which are open-ended in nature, investment activities have been permitted upon raising USD 1 Million in funds and the minimum corpus of USD 3 Million may be achieved within 12 months.

2.2.2. **Enhancement in the period of validity of PPM**: Under FM Regulations 2022, PPM of a Non-Retail Scheme was considered valid for a period of 6 months, which effectively means that the FME has to achieve the corpus of minimum USD 5 Million within the period of 6 months. Further, in the event a FME fails to achieve the minimum specified corpus within the period of validity, there was no explicit provision in the FM Regulations 2022 for further extension of PPM's validity. It was, however, permitted as modification of the terms of authorisation. Under FM Regulations 2025, the period of PPM's validity has been enhanced to 12 months. Further, in case a FME fails to achieve the minimum corpus within the 12 months period, an explicit provision allowing such FMEs to get a one-time extension of the validity of the PPM for a further period of 6 months by paying a fee equal to 50% of the fee applicable on fresh scheme filing has also been introduced.

2.3. As the FMEs require time for operational set-up; such as obtaining PAN and GST registration, setting up bank accounts, obtaining FPI registration (in case it intends to invest in listed Indian securities), undertaking roadshows and outreach for drumming up investors' interest, carrying out KYC and Customer Due Diligence, etc.; before they can accept contribution/commitment from investors, these changes are expected to resolve the challenges faced by the FMEs in garnering the minimum corpus within the period of validity. As a result of the above changes, FMEs now have double the time to achieve approx. half of the corpus in comparison to FM Regulations 2022.

2.4. As the FM Regulations 2025 came into force with effect from February 19, 2025, all such Non-Retail Schemes which were authorised by IFSCA under FM Regulations 2022 and which held a valid PPM as on the date of notification of FM Regulations 2025, will be able to avail of the benefit of the revised regulatory regime, including the validity of 12 months for their PPM and the flexibility to launch the scheme with a lower minimum corpus. Such schemes include:

2.4.1. Schemes which were authorised by IFSCA during the 6 month period ending on February 19, 2025, and

2.4.2. Schemes which obtained approval from IFSCA regarding the extension of the validity of their PPM and such extended tenure of 6 months ends on or after February 19, 2025.

2.5. However, for such schemes which did not have a valid PPM as on the date of notification of FM Regulations 2025, the EoDB measures introduced by IFSCA under FM Regulations 2025 are not available. IFSCA has been receiving feedback from the industry associations and industry participants to provide a one-time opportunity to FMEs to obtain a one-time extension for such schemes.

2.6. Further, for the schemes which held a valid PPM as on the date of notification of FM Regulations 2025, as referred under paragraph 2.4, in some cases FMEs have aligned the provisions of the PPM with the requirements of FM Regulations 2022. For example, the minimum corpus is mentioned in PPM as USD 5 Million, time period for first close of the scheme is mentioned as 6 months, etc. In such cases, for such schemes to avail of the revised requirements under FM Regulations 2025, an amendment to the PPM is necessary.

2.7. In terms of the fee structure of IFSCA, specified under Circular dated May 17, 2023 (as amended from time to time), a processing fee is to be paid by the FME for amendments to the PPM. In various interactions with industry participants and industry associations, IFSCA has received a feedback that a clarity may be provided regarding the applicability of the processing fee for amendments to the PPM which are necessitated due to the regulatory actions.

2.8. The rationale and proposal for with respect to the issues mentioned above are presented in subsequent paragraphs.

3. Rationale

3.1. As mentioned at paragraph 2.3, operationalizing a scheme is a multi-stage process, requiring approvals from multiple government authorities, appointment of service providers, such as fiduciaries, bank, custodian, fund administrator, distributors, consulting and /or legal firms, etc., while also parallelly engaging with prospective investors to market the scheme. In each such activity, FMEs have to invest significant efforts and incur expenses, which is expected to be recouped once the fund becomes operational.

3.2. Allowing an opportunity for one-time extension would ensure regulatory parity between schemes authorised under different regulatory frameworks and prevent disparate treatment of similarly situated entities. Further, such an extension will also prevent jeopardizing the already secured registrations / approvals and arrangements by the FMEs for such schemes, avoiding a complete restart of the process.

3.3. As FM Regulations 2025 provide for a one-time extension of the validity of a scheme PPM (beyond the 12 month period) upon payment of 50% of the filing fee as applicable for filing of a fresh scheme. In line with the same, a proposal to provide a one-time opportunity for extension of validity of PPMs of the Non-Retail Schemes which held an expired PPM as on the date of notification of FM Regulations 2025 is placed at paragraph 4.

3.4. Levy of processing fee is intended to be proportional to the regulatory resources utilized for processing of requests received from the regulated entities. With respect to amendments to the PPM of schemes which held a valid PPM as on the date of notification of FM Regulations 2025, as referred under paragraph 2.4, where such amendments are made only with the intent to bring alignment of the provisions of the PPM with the modified requirements under FM Regulations 2025, the regulatory resources required for the processing of such requests are expected to be minimal. Therefore, in such cases, it may be clarified that the processing fee for filing of the amended PPMs in such case shall not be applicable. In view of the same, a proposal in this regard is placed at paragraph 4.

3.5. The measures as proposed above are likely to address the genuine challenges faced by the FMEs, ensure broad parity and consistency of regulatory treatment and enhance the credibility of GIFT IFSC as an international financial centre. The measures proposed herein may be issued in terms of powers conferred upon regulation 144 and 146 to relax the enforcement of requirements under the regulation and/or remove difficulties in implementing the provisions of the regulation.

4. Proposals

4.1. For the schemes which did not have a valid PPM as on the date of notification of FM Regulations 2025, it is proposed that a one-time opportunity for extending the validity of the PPM for a period of 6 months may be provided. For availing of this opportunity –

4.1.1. The FMEs shall refile the PPM of such schemes with IFSCA within 3 months from the date of communication / circular by IFSCA for grant of such one-time opportunity,

4.1.2. Material amendments, if any, to such PPMs shall be permitted only to the extent necessary for alignment with the requirements of FM Regulations 2025. Therefore, any amendments with respect to the material aspects of the scheme, including the name of the scheme, its investment objective, investment strategy, structure (open-ended / close-ended) and type (Venture Capital Scheme, Category I/II/III Restricted Scheme), etc. shall not be permitted.

4.1.3. For each such refiling of the PPM, the FME shall pay a filing fee to IFSCA which shall be equal to 50% (fifty percent) of the filing fee applicable to the filing of a fresh scheme of that nature, and

4.1.4. Upon processing of such requests, IFSCA shall take the revised PPM on record and communicate the same to the FMEs, providing them an additional validity of 6 month (from the date of such communication from IFSCA regarding taking the refiled PPM on record) for PPM of such schemes.

4.2. For the schemes as referred in paragraph 2.4, it is proposed that a clarity may be provided that the processing fee (in terms of Circular dated May 17, 2023 as may be amended from time to time) shall not be applicable for filing of the amended PPMs with IFSCA if such amendments are solely necessitated due to regulatory actions of IFSCA. For this purpose –

4.2.1. The FMEs shall file the amended PPM of such schemes with IFSCA within the period of validity of the PPM, i.e., within 12 months from the date of communication from the IFSCA to the FME that the PPM was taken on record.

4.2.2. Upon processing of such requests, IFSCA shall take the revised PPM on record and communicate the same to the FMEs.

4.3. The Authority is further requested to authorize the Chairperson to take necessary, consequential and incidental steps to operationalize the abovementioned proposals.

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