

## **CONSULTATION PAPER ON PROPOSED IFSCA (FUND MANAGEMENT) REGULATIONS, 2022**

### **Objective**

The objective of this consultation paper is to seek comments / views/ suggestions from public on the proposed International Financial Services Centres Authority (Fund Management) Regulations, 2022.

### **Background**

International Financial Services Centres Authority (IFSCA), had constituted an Expert Committee on Investment Funds to recommend to IFSCA on the road map for the funds industry in the IFSCs. The Expert Committee submitted its report to Chairman, IFSCA on January 31, 2022 and the same is available at the following link:

<https://ifsc.gov.in/CommitteeReport>

Upon examination of the Committee Report, IFSCA has framed Draft IFSCA (Fund Management) Regulations, 2022 to provide for comprehensive regulations for host of activities related to fund management viz. retail schemes (including exchange traded funds), non-retail schemes (alternative investment funds), PMS, investment trusts (REIT and InvIT), ESG schemes, self-managed family investment fund, etc.

### **Overview of the Proposed Regulations**

The salient features of the proposed regulations are as under:

**Single registration for multiple activities:** A fund manager intending to undertake host of activities related to fund management viz. *manage retail schemes (including Exchange Traded Funds), non-retail schemes (alternative investment funds), undertake portfolio management services or operate as manager to various investment trusts (REIT and InvIT)* can do so by seeking a single unified registration from IFSCA. A fund manager intending to manage funds or activities for non-retail investors only shall have lower eligibility requirements. Further, a special registration with light touch requirements shall be accorded to a fund manager intending to invest in unlisted securities of start-ups, emerging or early-stage companies mainly involved in new products, new services, and technology through a venture capital scheme in IFSC.

The detailed eligibility and regulatory requirements for fund managers, retail schemes, non-retail schemes, venture capital schemes, portfolio management services and investment trusts have been prescribed. Substance requirements in terms of minimum Key Management Personnel (KMPs) with experience, infrastructure requirements, key activities such as investment management from IFSC, etc., have also been prescribed in the draft regulations. Further, to ensure grandfathering of existing Alternative Investment Funds and to ensure continuity of the current regulatory and tax regime in IFSC, suitable regulations have been included.

**Green Channel:** Venture Capital Schemes or non-retail schemes soliciting money from accredited investors only shall qualify for a green channel i.e. the schemes filed can open for subscription by investors immediately upon filing with IFSCA. The requirements on scheme size, number of investors, permissible investments, etc. have been detailed in the draft regulations.

**Exchange Traded Funds (ETFs):** Considering that ETFs offer a means to gain exposure to specific markets or asset classes at a low cost, registered fund managers in IFSC shall be able to launch not just Index based ETFs but also Active ETFs and Commodity based ETFs. Fund Managers for Gold and Silver ETFs in addition to physical bullion shall also be able to invest directly in Bullion Depository Receipts to be traded in IFSC. Innovative structures for ETFs shall be considered with prior approval of IFSCA and the concerned stock exchanges. To ensure sufficient liquidity in ETFs, stock exchanges in IFSC shall prescribe a framework for market makers.

**Stressed Assets:** Realising the important role of IFSC in the Government initiative of addressing the issue of NPAs faced by banks, a framework has been prescribed for special situation funds to be launched by fund managers in IFSC.

**Environment Social Governance (ESG):** Growing number of investors expect fund managers to make ESG issues integral to their investment strategies. With the intent of making IFSC as a hub for host of activities related to sustainable finance, disclosures have been proposed to be mandated at entity level and scheme level.

**Family Office:** Globally, there is an increasing need for having a formal structure for managing

and preserving the wealth of the HNIs and Ultra HNIs and their families. This has paved a need for conceptualisation of a regime for family offices in India. Accordingly, a framework to facilitate self-managed investment fund of a family office has been proposed. Further, a fund manager has also been permitted to undertake portfolio management for multi-family office.

To support **various innovations** in a controlled way, the following has also been included in the draft regulations:

- a. **Fund Lab:** A platform shall be provided to aspirational fund managers to try new strategies in a controlled manner.
- b. **Special purpose vehicle (SPV) as a co-investment structure:** Similar to international jurisdictions, fund managers shall be permitted to create SPVs under the main scheme to enable undertake co-investment or leverage along with the Fund/ scheme subject to certain conditions.
- c. **Retail participation in private markets:** There has been growing need to facilitate investors at large invest in private markets. Accordingly, it is proposed to facilitate retail close ended schemes to invest in unlisted securities subject to certain conditions.

In addition to above, the draft regulations detail the role of various entities, prescribes code of conduct, advertisement code, investment valuation norms and important governance requirements.

### **Public Comments**

In view of the above, comments and suggestions from public are invited on the proposed IFSCA (Fund Management) Regulations, 2022 contained in **Annexure - I** to this paper. Comments may be sent by email to Mr. Pavan Shah, Deputy General Manager, IFSCA at [pavan.shah@ifsc.gov.in](mailto:pavan.shah@ifsc.gov.in) with a copy to [kalpesh.mehta@ifsc.gov.in](mailto:kalpesh.mehta@ifsc.gov.in) latest by **February 28, 2022**. The comments should be in the following format (MS Word or MS Excel format only):

<b>Name and Details of the Person / Entity</b>				
(Organisation name (If applicable), Contact No and Email address)				
Sr. No.	Regulation No.	Sub-Regulation	Comments / Suggestions	Detailed Rationale

**DRAFT INTERNATIONAL FINANCIAL SERVICES CENTRES AUTHORITY  
(FUND MANAGEMENT) REGULATIONS, 2022**

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**DRAFT INTERNATIONAL FINANCIAL SERVICES CENTRES AUTHORITY  
(FUND MANAGEMENT) REGULATIONS, 2022**

*In exercise of the powers conferred by sub-section (1) of Section 28 read with sub-section (1) of Section 12 and sub-section (1) of Section 13 of the International Financial Services Centres Authority Act, 2019; Section 28C of the Securities and Exchange Board of India Act, 1992, the International Financial Services Centres Authority hereby makes the following regulations, namely: -*

**CHAPTER I  
PRELIMINARY**

**Short title and commencement.**

1. (1) These regulations may be called the International Financial Services Centres Authority (Fund Management) Regulations, 2022.
- (2) These regulations shall come into force on the thirtieth day from the date of its publication in the Official Gazette (effective date).

**Definitions.**

2. (1) In these regulations, unless the context otherwise requires, —
  - (a) “Act” means the International Financial Services Centres Authority Act, 2019 (50 of 2019);
  - (b) “accreditation agency” means an entity authorised by the Authority to undertake the activity of accrediting accredited investors;  
*Explanation:* For the purpose of accreditation, the Authority may prescribe the eligibility conditions for an accreditation agency and also the process for accreditation by such agency.
  - (c) “accredited investor” means any person who fulfils the eligibility criteria as specified by the Authority and in the manner specified;
  - (d) “advertisement” shall include all forms of communication issued by or on behalf of the fund management entity that may influence investment decisions of any investor/prospective investors;
  - (e) “associate” means
    - (a) a company or a limited liability partnership or a body corporate in which a

director or trustee or partner of the FME or the FME or any fiduciaries as defined in regulation 17 of these regulations, either individually or collectively, hold twenty percent or more of its paid-up equity share capital or partnership interest, as the case may be

- (b) a company or a limited liability partnership or a body corporate, either individually or collectively, hold twenty percent or more of its paid-up equity share capital or partnership interest, as the case may be in the FME
- (c) Any other company or a limited liability partnership or a body corporate, in which the entity referred in clause (ii) above holds twenty percent or more of its paid-up equity share capital or partnership interest, as the case may be;
- (f) “body corporate” shall have the meaning assigned to it under clause (11) of Section 2 of the Companies Act, 2013 (18 of 2013) as amended from time to time;
- (g) “certificate” means a certificate of registration issued by the Authority;
- (h) “control” shall include the right to appoint majority of the directors or to control the management or policy decisions exercisable by a person or persons acting individually or in concert, directly or indirectly, including by virtue of their shareholding or management rights or shareholders agreements or voting agreements or partnership agreement or in any other manner, including by holding interest, whether direct or indirect, to the extent of more than fifty percent of voting rights or interest:

Provided that a director or officer of an entity shall not be considered to be in control over such entity, merely by virtue of holding such position;

- (i) “close ended scheme” means any scheme in which the period of maturity of the scheme is specified;
- (j) “compliance officer” means any senior officer, designated so and reporting to the board of directors or head of the organization in case board is not there, who is financially literate and is capable of appreciating requirements for legal and regulatory compliance under these regulations and who shall be responsible for compliance of policies, procedures, maintenance of records, monitoring adherence to the rules for the preservation of unpublished price sensitive information, monitoring of trades and the implementation of the codes specified in these regulations under the overall supervision of the board of directors of the listed company or the head of an organization, as the case may be.

*Explanation* – For the purpose of this regulation, “financially literate” shall mean

a person who has the ability to read and understand basic financial statements i.e. balance sheet, profit and loss account, and statement of cash flows;

- (k) “corpus” means the total amount of funds committed by investors to the fund management entity under a scheme by way of a written contract or any such document as on a particular date;
- (l) “discretionary fund manager” means a fund manager who under a contract relating to fund management, exercises or may exercise, any degree of discretion as to the investment of funds or management of the portfolio of securities of the client, as the case may be;
- (m) “family investment fund” means a self-managed fund pooling money only from a single family and has been set up in terms of these regulations;
- (n) "form" means a form specified in First Schedule;
- (o) “foreign jurisdiction” means a country, other than India, whose securities market regulator is a signatory to International Organization of Securities Commission’s Multilateral Memorandum of Understanding (Appendix A signatories) or a signatory to a bilateral Memorandum of Understanding with the Authority, and which is not identified in the public statement of Financial Action Task Force as:
  - (i) a jurisdiction having a strategic Anti-Money Laundering or Combating the Financing of Terrorism deficiencies to which counter measures apply; or
  - (ii) a jurisdiction that has not made sufficient progress in addressing the deficiencies or has not committed to an action plan developed with the Financial Action Task Force to address the deficiencies;
- (p) “fund management entity” or “FME” means an entity registered as a Fund Management Entity under these regulations and shall include an Authorised and a Registered Fund Management Entity;
- (q) “fund manager” means any person who is appointed by the FME to manage its investments by whatever name called;
- (r) “fund of funds scheme” means a scheme that invests primarily in other schemes whether in IFSC or India or foreign jurisdictions;
- (s) “IFSC” or “International Financial Services Centre” shall have the same meaning as assigned to it under clause (g) of sub-section (1) of Section 3 of the Act;
- (t) “IFSCA” or “Authority” means the International Financial Services Centres Authority established under sub-section (1) of Section 4 of the Act;
- (u) “inspecting authority” means one or more persons authorised by the Authority to

undertake inspection of the books, accounts, records and documents of a fund management entity in terms of these regulations;

- (v) “index scheme” means a scheme that invests in securities in the same proportion as an index of securities;
- (w) “investee company” means any company, special purpose vehicle or limited liability partnership or body corporate or real estate investment trust or infrastructure investment trust or a fund in which an investment is made;
- (x) “KMP” or “key managerial personnel” means the officers or personnel of the FME who are members of its core management team and includes members of the management one level below the executive directors of the FME, functional heads and includes ‘key managerial personnel’ as defined under the Companies Act, 2013 or any other person whom the FME may declare as a key managerial personnel;
- (y) "net worth" means the aggregate value of the paid-up share capital (or capital contribution) and all reserves created out of the profits, securities premium account and debit or credit balance of profit and loss account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation;
- (z) “offer document” means any document by which a Registered FME (Retail) invites public for subscription in a scheme;
- (aa) “open ended scheme” means a scheme without specifying any duration for redemption;
- (bb) “portfolio” means the total holdings of securities and financial assets belonging to any person;
- (cc) “principal officer” means a designated employee of the fund management entity responsible for all operations of the Fund management entity;
- (dd) “recognised stock exchange” means a recognised stock exchange in IFSC;
- (ee) “Registered Fund Management entity or Registered FME” shall include Registered FME (Non-Retail) and Registered FME (Retail);
- (ff) “restricted schemes” means a scheme under a private placement offer to only “accredited investors” or investors investing above USD 1,50,000 and it shall not have more than 1000 investors or such other number as may be specified by the Authority;
- (gg) “Retail investors” means any investor who is not restricted to invest in a scheme or

- a financial product in IFSC;
- (hh) “Retail schemes” means a scheme offer to all investors with no limit to number of investors in the scheme;
  - (ii) “Scheme” or “fund” means a scheme of a fund management entity launched under Chapter III;
  - (ij) “single family” means a group of individuals who are the lineal descendants of a common ancestor and includes their spouses (including widows and widowers, whether remarried or not) and children (including stepchildren, adopted children, ex nuptial children);
  - (kk) “trust” means a trust established under the Indian Trusts Act, 1882 or under an Act of Parliament or State Legislation;

(2) Words and expressions used and not defined in these regulations but defined in the Act or Acts mentioned in the First Schedule to the Act, or the Companies Act, 2013, or any rules or regulations made thereunder shall have the same meanings respectively assigned to them in those Acts, rules or regulations or any statutory modification or re-enactment thereto, as the case may be.

## CHAPTER II

### REGISTRATION OF FUND MANAGEMENT ENTITY

#### **Obligation to seek registration**

3. (1) Any entity intending to undertake the business of fund management shall not commence operations in an IFSC unless it has obtained a certificate of registration from the Authority as a Fund Management Entity (FME) under these regulations.
- (2) An entity desirous of obtaining a certificate of registration as a FME in IFSC shall submit an application form in the format and manner as specified in First Schedule along with documents and application fees as may be specified by the Authority.
- (3) An application, which is not complete in all respects shall be liable to be rejected: Provided that, before rejecting any such application, the applicant shall be given an opportunity to complete such formalities within such time as may be specified by the Authority.
- (4) The FME shall seek registration under any of the following three categories:
  - (a) **Authorised FME:** FMEs that pool money from accredited investors or investors investing above the specified threshold by way of private placement and invest in start-ups or early-stage ventures through Venture Capital Scheme. Family Investment Fund investing in securities, financial products and such other permitted asset classes shall also seek registration as an Authorised FME.
  - (b) **Registered FME (Non-Retail):** FMEs that pool money from accredited investors or investors investing above a specified threshold by way of private placement for investing in securities, financial products and such other permitted asset classes through one or more restricted schemes. Such FMEs shall also be able to undertake Portfolio Management Services (including for multi-family office) and act as investment manager for private placement of Investment Trust (REITs and InvITs). Such FMEs shall also be able to undertake all activities as permitted to Authorised FMEs.
  - (c) **Registered FME (Retail):** FMEs that pool money from retail and non-retail investors under one or more schemes for investing in securities, financial products and such other permitted asset classes through retail or restricted schemes. Registered FME (Retail) may act as investment manager for public offer of Investment Trusts (REITs and InvITs). Such FMEs shall also be able to launch Exchange Traded Funds (ETFs). Further, such FMEs shall also be able to

undertake all activities as permitted to Authorised FMEs and Registered FMEs (Non-retail).

*Explanation I:* In order to follow risk based approach for supervision and also facilitate entities to undertake activities dealing with sophisticated investors with ease, the three classifications have been prescribed. To ensure continuity of the present regulatory framework for funds in IFSC, Registered FMEs (Non-Retail) shall be able to launch schemes as permissible under the extant regulatory framework for Alternative Investment Funds in IFSC and Authorised FMEs shall be able to launch schemes similar to angel fund / Venture Capital category under the extant regulatory framework for Category I Alternative Investment Fund.

*Explanation II:* Details of activities, investment conditions, responsibilities and obligations for each of the aforesaid category of FME have been prescribed in distinct chapters under these regulations. Additional conditions, responsibilities and disclosure obligations may also be specified by the Authority from time to time.

### **Eligibility Conditions**

4. For the purpose of grant of a certificate of registration, the applicant has to fulfill the conditions as prescribed in this Chapter more specifically in subsequent regulations.

### **Legal form of the applicant**

5. (1) The applicant shall be present in an IFSC by forming a company or limited liability partnership or branch thereof or any other form as may be permitted by the Authority: Provided that a Registered FME (Retail) shall not be permitted though LLP mode or its branch;  
Provided that the branch structure is permitted only for a FME which is already registered and/or regulated by a financial sector regulator in India or a foreign jurisdiction for conducting similar activities.  
(2) A Fund management entity operating as branch structure in an IFSC shall comply with the following conditions:
  - (a) The entity shall adequately ring fence the operations of the branch in IFSC;

- (b) The entity shall comply with the minimum net worth requirements specified in these regulations for its activities in IFSC which may be maintained at the parent level;
  - (c) The entity shall maintain such minimum capital as may be specified by the Authority, which shall be earmarked for IFSC and may be held in the jurisdiction of its incorporation;
  - (d) Any other requirements as may be specified by the Authority from time to time.
- (3) The memorandum of association in case of a company or the partnership deed in case of a limited liability partnership permit it to carry on the activity of Fund Management.
- (4) A Registered FME (Retail) shall have at least 4 directors with at least 50% of the directors to be independent directors.

### **Track Record and Reputation of Fairness**

6. The applicant shall have a sound track record and general reputation of fairness and integrity in all its business transactions.

*Explanation:* For the purposes of this clause “sound track record” shall mean:

- (a) In case of Registered FME (Retail), FME or its holding company to have not less than 5 years of experience in managing Assets under Management (AUM) of at least USD 200 million with more than 25,000 investors or at least 1 person in control of the FME holding more than 25 per cent shareholding/share of profits in the FME be carrying on business in financial services for a period of not less than 5 years,
- (b) In case of Registered and Authorised FME, it shall employ such employees who shall have relevant experience as prescribed in these regulations.

### **Appointment of Principal Officers and Key managerial personnel(s) (KMP)**

7. (1) The applicant shall designate a principal officer who shall be responsible for overall activities of the FME including but not limited to fund management, risk management and compliance.
- (2) In case of Registered FME, in addition to the above, One (1) KMP shall be designated as Compliance and Risk Manager and shall be responsible for compliance with these regulations and ensure suitable risk management policies and practices at the FME.
- (3) In addition to sub-regulations (1) and (2) above, the Registered FME (Retail) shall

appoint a KMP who shall be designated with the responsibility of fund management.

(4) The applicant shall ensure that the aforementioned principal officer and other KMPs shall be based out of IFSC and meet the following experience:

- (a) A professional qualification or post-graduate degree or post graduate diploma (minimum two years in duration) in finance, law, accountancy, business management, commerce, economics, capital market, banking, insurance or actuarial science from a university or an institution recognised by the Central Government or any State Government or a recognised foreign university or institution or association; or a certification from any organization or institution or association or stock exchange which is recognised/ accredited by Authority or a regulator in India or Foreign Jurisdiction; and
- (b) An experience of at least five years in related activities in the securities market or financial products including in a portfolio manager, broker dealer, investment advisor, Wealth Manager, research analyst or fund management.

(5) The personnel exercising influence or control over the management of the investment portfolio and who initiate the proposal on the portfolio composition shall be based in office of the FME in the IFSC.

(6) The key management and commercial decisions relating to investment management and trade execution that are necessary for the conduct of the business of the FME should in substance be undertaken from the IFSC.

(7) The FME shall appoint other personnel commensurate to the size of its operations and activities.

### **Net worth requirements**

8. (1) An entity seeking registration as a FME shall at all times comply with the net worth requirements as specified in Second Schedule of these regulations or such other amount as may be specified by the Authority.

(2) An entity operating as a branch shall comply with the minimum net worth requirements specified in these regulations for its activities in IFSC which may be maintained at the parent level. However, the parent entity shall ensure that adequate funds are available for branch for its day to day operations.

(3) The minimum net worth requirements as stated above shall be separate in addition to the minimum net worth requirements applicable for other activities within or outside IFSC.

### **Fit and proper requirements**

9. (1) The applicant and its principal officer, directors/ partners/ designated partners, key managerial personnel and controlling shareholders shall be fit and proper persons, at all times.
- (2) For the purpose of sub-regulation (1), a person shall be deemed to be a fit and proper person if, -
- (a) such person has a record of fairness and integrity, including but not limited to-
    - (i) financial integrity;
    - (ii) good reputation and character; and
    - (iii) honesty.
  - (b) such person has not incurred any of the following disqualifications –
    - (i) the person has been convicted by a court for any offence involving moral turpitude or any economic offence or any offence against securities laws;
    - (ii) a recovery proceeding has been initiated against the person by a financial regulatory authority and is pending;
    - (iii) an order for winding up has been passed against the person for malfeasance;
    - (iv) the person has been declared insolvent and not discharged;
    - (v) an order, restraining, prohibiting or debaring the person from accessing or dealing in financial products or financial services, has been passed by any regulatory authority, and a period of three years from the date of the expiry of the period specified in the order has not elapsed;
    - (vi) any other order against the person, which has a bearing on the securities market, has been passed by the Authority or any other regulatory authority, and a period of three years from the date of the order has not elapsed;
    - (vii) the person has been found to be of unsound mind by a court of competent jurisdiction and the finding is in force;
    - (viii) the person is financially not sound or has been categorized as a wilful defaulter;
    - (ix) the person has been declared a fugitive economic offender; or
    - (x) any other disqualification as may be specified by the Authority.

### **Infrastructure Requirements**

10. (1) The entity has the necessary infrastructure like adequate office space, equipment,

communication facilities and manpower to effectively discharge its activities under these regulations and circulars issued thereunder. The infrastructure requirements should be commensurate to the size of its operations in IFSC.

(2) The office should be dedicated, secured and accessible only by authorised person(s).

### **Furnishing of Information.**

11. (1) The Authority may require the applicant to furnish any such further information or clarification regarding itself or nature of the fund or fund management activities or any such matter connected thereto to consider the application for grant of a certificate or after registration thereon.

(2) If required by the Authority, the applicant shall appear before the Authority for personal representation.

(3) If required, the Authority may undertake an inspection of the office of the applicant before the grant of a certificate of registration.

### **Consideration of application and Grant of Certificate of Registration**

12. The Authority, may on receipt of all information decide the application and on being satisfied may grant Certificate of Registration as FME to the applicant (under the appropriate category), subject to the applicant paying applicable registration fee.

### **Terms and conditions of registration**

13. (1) The registration granted to a FME, shall be subject to the following terms and conditions—

(a) the FME, its CEO / Directors / Partners, Principal officer shall comply with the provisions of these regulations;

(b) the FME shall forthwith inform the Authority, if any information or particulars previously submitted to the Authority was misleading or false in any material respect;

(c) the FME shall forthwith inform the Authority, of any material change in the information or particulars previously furnished, which have a bearing on the registration granted by it.

(2) A FME which has been granted registration under a particular category cannot change its category subsequent to registration, except with the prior approval of the Authority.

### **Rejection of application**

14. Where the applicant does not satisfy any of the requirements under these regulations or circulars issued thereunder, the Authority may reject the application and inform the applicant of the same after providing an opportunity of being heard.

### **Period of validity**

15. The certificate of registration of a fund management entity shall be valid for such period as may be specified by the Authority, unless it is suspended or cancelled by the Authority or surrendered by the FME and taken on record by the Authority.

### **Surrender of registration**

16. A FME may file an application with the Authority for surrender of its certificate of registration.

### **Constitution of the Fund / Scheme**

17. (1) A FME may launch various schemes as provided under Chapter III of these regulations.  
(2) A FME prior to the filing of a scheme document shall appoint the Board of Directors in case of Company, Designated Partners in case of LLP and Trustees (including the Board in case of a Trustee company) in case of a Trust (together referred to as “fiduciaries”) based on the constitution of the fund.  
(3) FME shall ensure that at least half of the directors appointed in case of a Registered FME (Retail) are independent and not associated with the FME.  
(4) FME shall ensure that all the fiduciaries meet with the fit and proper requirements as specified in this chapter.  
(5) FME intending to launch retail schemes shall take prior approval of the Authority for appointing any person as a fiduciary.  
(6) The fiduciaries shall comply with the Code of Conduct and obligations as detailed in Part B of Third Schedule.

**CHAPTER III**  
**SCHEMES FOR FUND MNAAGEMENT**

**PART A: VENTURE CAPITAL SCHEMES**

**Venture Capital Schemes**

18. (1) Venture Capital Schemes are schemes that can be launched by Authorised FMEs or Registered FMEs and invests primarily in unlisted securities of start-ups, emerging or early-stage venture capital undertakings mainly involved in new products, new services, technology or intellectual property right based activities or a new business model or other schemes which invest in such entities and shall also include an angel fund.

*Explanation:* Venture Capital Schemes under this Chapter shall be construed as “venture capital fund” under Category I Alternative Investment Fund and as “Venture Capital Company” or “venture capital fund” as specified under the Income Tax Act, 1961.

**Eligible FMEs and Filing of Placement Memorandum**

19. (1) An FME may launch Venture Capital schemes through a private placement by filing a placement memorandum with the Authority along with the application fees.
- (2) The filing of scheme documents for such venture capital schemes shall be under a green channel i.e. the schemes filed can be open for subscription by investors immediately upon filing with the Authority.

**Eligible Investors**

20. (1) Venture Capital schemes shall have less than 50 investors.
- (2) Accredited Investors or investors investing above USD 250,000 shall be permitted to invest in such schemes.

Provided that in case of investors who are employees or directors or designated partners of the FME, the minimum value of investment shall be USD 60,000.

Provided further that the minimum investment threshold (including for employees) shall not apply to an accredited investor.

*Explanation:* A Registered FME intending to launch venture capital schemes to target more than 50 investors or pool money from investors investing with lower application size of USD 150,000 shall be able to do so under restricted schemes as provided under Part B of this Chapter.

### **Nature and structure of Scheme**

21. (1) Venture Capital schemes shall only be close ended schemes and the maximum tenure and the amount to be raised should be decided upfront and disclosed in the placement memorandum. The minimum tenure of a close ended scheme shall be three (3) years.
- (2) Extension of the tenure of the close ended schemes may be permitted up to two (2) years subject to approval of two-thirds of the investors by value of their investment in the venture capital scheme.
- (3) Venture capital schemes shall be constituted in IFSC under the laws of India as applicable to Company or LLP or Trust.

### **Permissible investments**

22. (1) Subject to other provisions of these regulations, a venture capital scheme may invest moneys collected under any of its schemes only in—
- (a) Securities issued by unlisted entities
  - (b) Securities listed or traded on stock exchanges in India including recognised stock exchanges and stock exchanges outside India
  - (c) Money market instruments
  - (d) Debt securities
  - (e) Securitised debt instruments, which are either asset backed or mortgage-backed securities
  - (f) Other venture capital schemes set up in the IFSC, India and foreign jurisdiction subject to appropriate disclosure in the placement memorandum
  - (g) Such other securities or financial assets or instruments as specified by the Authority.

Provided that pending deployment of money, FME may invest money in certificate of deposits, investment schemes, etc.

- (2) Any investment made under sub-regulation (1) shall be in accordance with the investment objective of the relevant venture capital scheme and disclosures in the placement memorandum.

### **Investment Restrictions and Scheme Corpus**

23. (1) The minimum size of the corpus in case of venture capital schemes shall be USD Five (5) Million. The total corpus of venture capital schemes shall not exceed USD Two

hundred (200) Million.

(2) Restricted schemes may invest in associate entities subject to the prior approval of 75% investors in the scheme by value.

(3) Venture Capital schemes shall invest at least 80 percent of the AUM in investee companies incorporated for less than 7 years or other venture capital schemes.

### **Disclosures to investors**

24. (1) The placement memorandum for venture capital schemes shall clearly include disclosures regarding the investment objective, the targeted investors, proposed corpus, investment style or strategy, investment methodology, proposed tenure of the fund or scheme proposed fees and expenses, risk management practices, KMPs of the FME and other relevant details of the FME and the scheme. The FME shall comply with the disclosure requirements as may be specified by the Authority.

(2) The FME shall ensure that the portfolio under the scheme and Net Asset Value (NAV) is disclosed to the investors at least on a yearly basis.

(3) The aforesaid disclosures shall be made within one (1) month of the end of each financial year.

(4) Any other material disclosure as considered suitable by the FME or the fiduciaries shall be informed to the investors immediately.

### **Borrowing**

25. (1) A venture capital scheme may borrow funds or engage in leveraging activities, subject to the following conditions:

(a) The maximum leverage by the scheme, along with the methodology for calculation of leverage, shall be disclosed in the placement memorandum;

(b) The leverage shall be exercised subject to consent of the investors;

(c) The FME employing leverage shall have a comprehensive risk management framework appropriate to the size, complexity and risk profile of the scheme.

### **Valuation**

26. (1) The FME and fiduciaries shall ensure compliance of investment valuation norms specified in the Sixth Schedule.

(2) In line with the investment valuation norms, the assets of the scheme may be valued by an in-house fund valuation team that is independent from the fund management

function or by a third-party service provider, such as a fund administrator or custodian, registered with the Authority or such other person as may be specified by the Authority.

### **Computation of NAV**

27. (1) FME shall compute the NAV of each venture capital scheme at least on an annual basis.
- (2) The procedure and methodology for calculating the NAV should be fully documented, and such documentation should be regularly verified and amended if required.

### **Contribution by the FME in the scheme**

28. (1) The FME shall ensure that under a venture capital scheme it shall invest at least, lower of 2.5% of the corpus of the scheme or USD 750,000.
- Provided that the contribution by the FME shall not be mandatory in case of relocation of schemes established or incorporated or registered outside India to IFSC.
- (2) The said contribution shall be made by the FME or its associate entity within six months from the launch of the scheme and maintained on ongoing basis.
- (3) The said contribution shall be exempted if
- (a) at least 2/3<sup>rd</sup> of the investors in the scheme by value permits waiver of such contribution.
  - (b) at least 2/3<sup>rd</sup> of the investors in the scheme are accredited investors.
  - (c) the scheme is a fund of fund scheme investing in a scheme which has similar such requirements.

### **Co-investment**

29. (1) A venture capital scheme may co-invest in permissible investment under these regulations through a special purpose vehicle (SPV) under a framework specified by the Authority or through a segregated portfolio by issuing a separate class of units and shall ensure that:
- (a) The investments by such segregated portfolios shall, in no circumstance, be on terms more favourable than those offered to the common portfolio of the restricted scheme; and
  - (b) Appropriate disclosures have been made in the placement memorandum regarding creation of segregated portfolio.

## **PART B: RESTRICTED SCHEMES (SCHEMES FOR NON-RETAIL)**

### **Restricted Schemes (Non-Retail Schemes)**

30. (1) Restricted Schemes are schemes that may be launched by Registered FMEs for various investment strategies including for

(a) investing in start-up or early stage ventures or social ventures or SMEs or infrastructure or other sectors or areas which the government or regulators consider as socially or economically desirable and shall include venture capital funds, SME Funds, social venture funds, infrastructure funds, ESG Funds, Special Situations funds (as detailed in Part D of this Chapter) and such other Schemes/Funds as may be specified by the Authority.

*Explanation:* Schemes under this clause shall be construed as Category I Alternative Investment Fund under the Income Tax Act, 1961. Such schemes shall be launched as close ended as provided under this Chapter. It is clarified that venture capital funds under this Part shall not be required to comply with conditions for venture capital schemes as provided under Part A of Chapter III of these regulations.

(b) investment in securities primarily of listed entities including for undertaking diverse or complex trading strategies and for permitted investments under longevity finance.

*Explanation:* Schemes under this clause shall be construed as Category III Alternative Investment Fund as specified under the Income Tax Act, 1961.

(c) investment which does not fall under the clause (a) and (b) above.

*Explanation:* Schemes under this clause shall be construed as Category II Alternative Investment Fund as specified under the Income Tax Act, 1961. Such schemes shall be launched as close ended as provided under this Chapter.

### **Eligible FMEs and Filing of Placement Memorandum**

31. (1) Registered FMEs may launch restricted schemes through a private placement by filing the placement memorandum with the Authority along with the application fees as specified by the Authority before 21 days of launch of the scheme.

(2) The Authority may communicate its comments, if any, to the FME within 21 days and the FME shall ensure that the comments are incorporated in the placement

memorandum prior to launch of the scheme. In case of no comments are communicated within 21 days, the FME may launch the scheme:

Provided that the validity of the placement memorandum shall be six (6) months from the date of filing with the Authority or the date of observation letter of Authority, whichever is later.

(3) The requirement under sub-regulation (2) shall not be applicable for restricted schemes soliciting money only from accredited investors i.e. such restricted schemes shall be under a green channel and can open for subscription from investors immediately upon filing with the Authority.

(4) The FME shall ensure that any material changes from the information provided in the placement memorandum, shall be immediately informed to the Authority.

### **Eligible Investors**

32. (1) Restricted schemes shall have less than one thousand (1000) investors or such number as may be specified by the Authority:

(2) Accredited Investors or investors investing above USD 150,000 may invest in such schemes.

Provided that in case of investors who are employees or directors or designated partners of the FME, the minimum value of investment shall be USD 40,000.

Provided further that the minimum investment threshold (including for employees) shall not apply to an accredited investor.

### **Nature and Structure of Scheme**

33. (1) Restricted schemes may be launched as open ended or close ended schemes. In case of a close ended schemes, the maximum tenure and amount to be raised should be decided upfront and disclosed in the placement memorandum. The minimum tenure of a close ended scheme shall be three (3) years.

(2) Extension of the tenure of the close ended restricted schemes may be permitted up to two years subject to approval of two-thirds of the investors by value of their investment in the restricted scheme.

(3) Restricted schemes shall be constituted under the laws of India as applicable to Company or LLP or Trust.

### **Permissible investments**

34. (1) Subject to other provisions of these regulations, a restricted scheme may invest moneys collected under any of its schemes only in—
- (a) Securities issued by unlisted entities
  - (b) Securities listed or traded on stock exchanges in India including recognised stock exchanges and stock exchanges outside India
  - (c) Money market instruments
  - (d) Debt securities
  - (e) Securitised debt instruments, which are either asset backed or mortgage-backed securities
  - (f) Other investment schemes set up in the IFSC, India and foreign jurisdiction subject to appropriate disclosure in the placement memorandum
  - (g) Derivatives including commodity derivatives subject to suitable disclosures in the placement memorandum
  - (h) Such other securities or financial assets or instruments as specified by the Authority.

Provided that pending deployment of money, FME may invest money in certificate of deposits, investment schemes, etc.

(2) Any investment made under sub-regulation (1) shall be in accordance with the investment objective of the relevant scheme.

(3) In addition to the above, a close ended scheme may invest up to 20% of the corpus in other physical assets such as real estate, bullion, art or any other physical asset as may be specified by the Authority from time to time.

### **Investment Restrictions and Scheme Corpus**

35. (1) In case of an open ended scheme, the maximum investment in securities of unlisted companies should not exceed 25% of the corpus of the schemes.
- (2) The minimum size of the restricted schemes shall be USD Five (5) Million.
- (3) Restricted schemes may invest in associate entities subject to the prior approval of 75% investors in the scheme by value.

### **Disclosures to investors**

36. (1) The placement memorandum for restricted schemes shall clearly include disclosures regarding the investment objective, the targeted investors, proposed corpus, investment

style or strategy, investment methodology, proposed tenure of the fund or scheme proposed fees and expenses, risk management practices, KMPs of the FME and other relevant details of the FME and the scheme. The FME shall comply with the disclosure requirements as may be specified by the Authority.

(2) Any material deviation or alteration to the fund strategy should be made with the consent of at least two-thirds of investors by value.

(3) The FME shall ensure that the NAV is disclosed to the investors at least on a monthly basis in case of an open ended scheme and half-yearly in case of a close ended scheme.

(4) The FME shall ensure that the portfolio under the scheme is disclosed to the investors at least on a quarterly basis within one (1) month from the end of the quarter.

(5) Any other material disclosure as considered suitable by the FME or the fiduciaries shall be informed to the investors immediately.

### **Borrowing**

37. (1) A restricted scheme may borrow funds or engage in leveraging activities, subject to the following conditions:

- (a) The maximum leverage by the scheme, along with the methodology for calculation of leverage, shall be disclosed in the placement memorandum;
- (b) The leverage shall be exercised subject to consent of the investors;
- (c) The FME employing leverage shall have a comprehensive risk management framework appropriate to the size, complexity and risk profile of the fund.

### **Valuation**

38. (1) The FME and fiduciaries shall ensure compliance of investment valuation norms specified in the Sixth Schedule.

(2) In line with the Investment valuation norms, the assets of the scheme may be valued

(a) in case of a close ended scheme by an in-house fund valuation team that is independent from the fund management function or by an independent third-party service provider such as a fund administrator or custodian or such other person as may be specified by the Authority.

(b) in case of an open ended scheme by an independent third-party service provider such as a fund administrator or custodian, registered with the Authority or such other person as may be specified by the Authority.

### **Computation of NAV**

39. (1) FME shall compute the NAV of each restricted scheme at least on a monthly basis: Provided that in case of a close ended restricted scheme the computation of NAV shall take place at least half-yearly.
- (2) The procedure and methodology for calculating the NAV should be fully documented, and such documentation should be regularly verified and amended, if required.

### **Contribution by the FME in the scheme**

40. (1) The FME shall ensure that under a restricted scheme it shall invest at least,
- (a) In case of a close ended scheme, lower of 2.5% of the corpus of the scheme or USD 750,000
- (b) In case of Open-ended scheme, lower of 5% of the corpus of the scheme or USD 1,500,000

Provided that the contribution by the FME shall not be mandatory in case of relocation of funds /schemes established or incorporated or registered outside India to IFSC.

- (2) The said contribution may be brought in by FME or its associate entity within six months from the date of launch of the scheme and shall be maintained on an ongoing basis.
- (3) The said contribution if brought in by FME shall be included for the purpose of net-worth requirements as detailed under Chapter II.
- (4) The said contribution shall be exempted if
- (a) at least 2/3<sup>rd</sup> of the investors in the scheme by value permits waiver of such contribution
- (b) at least 2/3<sup>rd</sup> of the investors in the scheme are accredited investors
- (c) The scheme is a fund of fund scheme investing in a scheme which has similar such requirements.

### **Co-investment**

41. (1) A restricted scheme may co-invest in permissible investments under these regulations through a SPV under a framework specified by the Authority or segregated portfolio by issuing a separate class of units and shall ensure that:
- (a) The investments by such segregated portfolios shall, in no circumstance, be on terms more favourable than those offered to the common portfolio of the restricted

scheme; and

- (b) Appropriate disclosures have been made in the placement memorandum regarding creation of segregated portfolio.

## **PART C: RETAIL SCHEMES**

### **Retail Schemes**

42. (1) Retail Schemes are schemes that can be launched by Registered FMEs (Retail) for pooling money from retail investors through an offer document for investment as per its stated investment objective in various permissible investments.

*Explanation:* Retail Schemes shall be construed as mutual fund or mutual fund schemes as specified under the Income Tax Act, 1961.

### **Eligible FMEs and Filing of Offer Document**

43. (1) Only Registered FMEs (Retail) shall launch retail schemes through an offer document by filing the draft offer document with the Authority for vetting along with the application fees at least twenty one (21) days before launch of the scheme.
- (2) The validity of the offer document shall be twelve (12) months from the date of observation letter of Authority.
- (3) FME shall ensure that the comments of the Authority are incorporated in the offer document prior to launch of the scheme.
- (4) The FME shall ensure that any material changes from the information provided in the draft offer document are informed to the Authority immediately.
- (5) No retail scheme shall be filed with the Authority unless it has been approved by the fiduciaries.

### **Eligible Investors**

44. Retail schemes shall have at least 20 investors with no single investor investing more than 25% in a scheme:
- Provided that the condition shall be complied within a maximum period of 6 months from the closure of the offer.

### **Nature and Structure of Scheme**

45. (1) Retail schemes could be open ended or close ended. In case of a close ended schemes, the maximum tenure should be decided upfront and disclosed in the offer document. The minimum tenure of a close ended scheme shall be three (3) years.
- (2) Extension of the tenure of the close ended schemes shall be permitted up to two years subject to approval of two-thirds of the investors by value of their investment in the

scheme and the approval of the Authority.

(3) Retail schemes shall be constituted in IFSC under the laws of India as applicable to Company or Trust.

(4) Retail schemes may launch schemes for various investment strategies including for investment in Social Ventures, Infrastructure, ESG sectors (ESG schemes), specific sectors (sectoral schemes), certain themes such as infrastructure (thematic schemes), certain asset class (equity schemes, debt schemes, etc.) or a combination thereof or towards certain solution (retirement schemes, schemes for children education, etc) subject to such terms and conditions as may be specified by the Authority.

### **Permissible investments**

46. (1) Subject to other provisions of these regulations, a retail scheme may invest moneys collected under any of its schemes only in—
- (a) Securities listed or traded on stock exchanges in India including recognised stock exchanges and stock exchanges in foreign jurisdictions
  - (b) Securities issued by unlisted entities
  - (c) Money market instruments
  - (d) Debt securities
  - (e) Securitised debt instruments, which are either asset backed or mortgage-backed securities
  - (f) Other investment schemes set up in the IFSC, India and foreign jurisdiction subject to appropriate disclosure in the offer documents
  - (g) Derivatives including commodity derivatives only for the purpose of hedging subject to suitable disclosures in the offer document
  - (h) Such other securities or financial assets or instruments as prescribed by the Authority.

Provided that pending deployment of money, FME may invest money in certificate of deposits, investment schemes, etc.

(2) Any investment made under sub-regulation (1) shall be in accordance with the investment objective of the relevant retail scheme.

### **Investment Restrictions and Scheme Corpus**

47. (1) In case of an open ended schemes, the maximum investment in unlisted securities should not exceed 15% of the total AUM of the schemes.

(2) The minimum amount of investment by an investor in case of close ended schemes investing more than 15% in unlisted securities, shall be USD 10,000:

Provided that a close ended scheme shall not invest more than 50% in unlisted securities.

Explanation: For retail schemes investing less than 15% in unlisted securities, the minimum amount of investment of USD 10,000 shall not be applicable.

(3) Retail schemes shall not invest more than 10% of its AUM in securities of a single company:

Provided that the retail scheme may invest up to 15% in a single company with the prior approval of the fiduciaries:

Provided further that the limit on single company shall not be applicable in case of Index schemes.

(4) Retail schemes shall not invest more than 25% of its AUM in a single sector:

Provided that in case of a financial services sector the amount shall not exceed 50% of the AUM of the scheme:

Provided further that the limits on sectoral caps shall not apply in case of a sectoral or thematic or an Index Scheme.

(5) Retail schemes shall not invest more than 25% of the AUM in associated entities of the FME.

(6) The minimum size of the retail schemes shall be USD Five (5) Million.

## **Disclosures**

48. (1) The offer document for retail schemes shall clearly include all disclosures which are material for investors to make a decision regarding investing in such schemes.

(2) The disclosures in the offer document shall *inter-alia* include disclosures regarding the investment objective, the targeted investors, proposed corpus, investment style or strategy, investment methodology, proposed tenure of the fund or scheme proposed fees and expenses, risk management practices, KMPs of the FME and other relevant details of the FME and the scheme. The FME shall comply with the disclosure requirements in the offer document as may be specified by the Authority.

(3) Any material deviation or alteration to the fund strategy should be made with the consent of at least two-thirds of investors by value.

(4) The FME shall ensure that the NAV is disclosed to the investors on a daily basis in case of an open ended scheme and weekly basis in case of a close ended scheme.

(5) The FME shall ensure that the portfolio under the scheme is disclosed to the

investors at least on a quarterly basis within one (1) month from the end of the quarter.

(6) Any other material disclosure as considered suitable by the FME or the fiduciaries shall be informed to the investors immediately.

### **Borrowing**

49. A retail scheme shall not borrow except to meet temporary liquidity needs for the purpose of redemption or payment of interest or dividend to the investors:

Provided that the retail scheme shall not borrow more than 20 per cent of the AUM of the scheme and the duration of such a borrowing shall not exceed a period of six (6) months.

### **Valuation**

50. (1) The FME and fiduciaries shall ensure compliance with the investment valuation norms as specified in the Sixth Schedule.

(2) In line with the investment valuation norms, the assets of the scheme may be valued by an independent third-party service provider such as a fund administrator or a custodian, registered with the Authority or such other person as may be specified by the Authority.

### **Computation of NAV**

51. (1) FME shall compute the NAV of each retail scheme on a daily basis:

Provided that in case of a close ended retail scheme the computation of NAV shall take place at least on a weekly basis.

(2) The procedure and methodology for calculating the NAV should be fully documented, and such documentation should be regularly verified and amended.

### **Contribution by the FME in the scheme**

52. (1) The FME shall ensure that under a restricted scheme it shall invest at least, lower of 1% of the AUM of the scheme or USD 200,000.

Provided that the contribution by the FME shall not be mandatory in case of relocation of funds /schemes established or incorporated or registered outside India to IFSC.

(2) The said contribution may be brought in by FME or its associate entity within six months from the date of launch of the scheme and shall be maintained on an ongoing

basis.

(3) The said contribution if brought in by FME shall be included for the purpose of net-worth requirements as detailed under Chapter II.

(4) The said contribution shall be exempted if the scheme is a fund of fund scheme investing in a scheme which has similar such requirements.

## PART D: SPECIAL SITUATION FUNDS

53. A registered FME may launch a special situation fund in accordance with the provisions of this Chapter.

### Definitions

54. For the purpose of Part D of this Chapter,

(1) “special situation asset” includes,-

- (a) stressed loan available for acquisition in terms of Clause 58 of Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021 as amended from time to time or as part of a resolution plan approved under the Insolvency and Bankruptcy Code, 2016 or in terms of any other policy of the Reserve Bank of India or IFSCA or Government of India issued in this regard from time to time;
- (b) security receipts issued by an Asset Reconstruction Company registered with the Reserve Bank of India;
- (c) securities of investee companies,
  - (i) whose stressed loans are available for acquisition in terms of Clause 58 of the Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021 as amended from time to time or as part of a resolution plan approved under the Insolvency and Bankruptcy Code, 2016 or in terms of any other policy of the Reserve Bank of India or IFSCA or Government of India issued in this regard from time to time;
  - (ii) against whose borrowings, security receipts have been issued by an Asset Reconstruction Company registered with the Reserve Bank of India;
  - (iii) whose borrowings are subject to corporate insolvency resolution process under Chapter II of the Insolvency and Bankruptcy Code, 2016;
  - (iv) who have disclosed all the defaults relating to the payment of interest or repayment of principal amount on loans from banks / financial institutions/ Systemically Important Non-Deposit taking Non-Banking Financial Companies/ Deposit taking Non-Banking Financial Companies and /or listed or unlisted debt securities and such payment default is continuing for a period of at least ninety calendar days after the occurrence of such default:  
Provided that in case of sub-clauses (iii) and (iv), the credit rating of the financial instruments or credit instruments or borrowings of the company has

been downgraded to “D” or equivalent;

- (d) Any other asset as may be specified by the Authority from time to time.
- (2) “special situation fund” means a scheme that invests in special situation assets in accordance with its investment objectives and may act as a resolution applicant under the Insolvency and Bankruptcy Code, 2016.

### **Filing of Placement Memorandum**

55. (1) A registered FME may launch a special situation fund through a private placement memorandum by filing the memorandum with the Authority along with the application fees at least 21 days before launch of the scheme.
- (2) The Authority may communicate its comments, if any, to the FME within 21 days and the FME shall ensure that the comments are incorporated in the placement memorandum prior to launch of the scheme.
- (3) In case of no comments are communicated within 21 days, the FME may launch the scheme:
- Provided that the validity of the placement memorandum shall be six months from the date of filing with the Authority or the date of observation letter of Authority, whichever is later.
- (4) The FME shall ensure that any material changes in the placement memorandum are informed to the Authority immediately.

### **Nature and Structure of Scheme**

56. (1) A special situation fund shall be close ended and the minimum tenure of a special situation fund shall be three (3) years.
- (2) The maximum tenure of a special situation fund shall be disclosed upfront in the placement memorandum.
- (3) Extension of the tenure of the close ended special situation fund may be permitted up to two years subject to approval of two-thirds of the investors by value.
- (4) A special situation fund shall be constituted in IFSC under the laws of India as applicable to a company or LLP or Trust.

### **Permissible Investments**

57. A special situation fund shall invest only in special situation assets.

### **Scheme corpus, eligible investors, investment conditions**

58. (1) A special situation fund shall have the minimum corpus as may be specified by the Authority from time to time.
- (2) A special situation fund shall accept such eligible investors as may be specified by the Authority from time to time.
- (3) A special situation fund shall comply with such additional investment conditions as may be specified by the Authority from time to time.

### **Borrowing**

59. A special situation fund shall not borrow or engage in any leveraging activities other than to meet day-to-day operational requirements.

### **Other requirements**

60. (1) The norms regarding disclosures, valuation, computation of NAV, contribution by the FME in the scheme as provided for closed ended restricted scheme under Chapter III of these regulations shall apply to a special situation fund.
- (2) A special situation fund shall be considered as a category under restricted schemes and accordingly a special situation fund shall comply with such requirements as may be specified by the Authority for closed ended restricted schemes from time to time.

**CHAPTER IV**  
**EXCHANGE TRADED FUNDS (ETFs)**

**Exchange Traded Funds**

61. (1) Only Registered FMEs (Retail) shall launch Exchange Traded Funds (ETFs) through an offer document by filing the draft offer document with the Authority for vetting along with the application fees at least twenty one (21) days before launch of the ETF.
- (2) The validity of the offer document shall be twelve (12) months from the date of observation letter of Authority.
- (3) FME shall ensure that the comments of the Authority are incorporated in the offer document prior to launch of the ETF.
- (4) The FME shall ensure that any material changes from the information provided in the draft offer document are informed to the Authority immediately.
- (5) Exchange traded fund shall mean a scheme of a FME that is mandatorily listed and traded on a recognised stock exchange and shall include:
- (a) Equity Index based ETFs
  - (b) Debt Index based ETFs
  - (c) Commodity based ETFs
  - (d) Hybrid ETFs (investing in 2 or more asset class)
  - (e) Actively Managed ETF
  - (f) Any other ETFs subject to approval of exchange and the authority
- (6) No scheme for ETF shall be filed with the Authority unless it has been approved by the fiduciaries.
- Provided that in case of ETFs falling under clause (e) and (f) of sub-regulation 5 above prior approval of recognized stock exchange(s) where such ETF is intended to be listed shall be obtained.
- (7) An ETF in IFSC should use the identifier 'IFSC ETF' which identifies it as an exchange-traded fund listed and traded at recognised stock exchanges. The identifier should be used at all places including its name, offer document, and all advertising material.

**Equity Index based ETF**

62. (1) FME may launch an ETF replicating an Equity Index of IFSC or Indian or foreign

jurisdiction.

(2) An Equity Index based ETF that seeks to replicate a particular index shall ensure that such index complies with the following norms:

- (a) The index shall have a minimum of 10 stocks as its constituents.
  - (b) For a sectoral/ thematic index, no single stock shall have more than 35% weight in the index. For other than sectoral/ thematic indices, no single stock shall have more than 25% weight in the index.
- (3) Equity Index based ETF shall replicate the underlying index to the extent of at least 95% of total assets.

### **Debt Index based ETF**

63. (1) FME may launch an ETF replicating a Debt Index of IFSC or Indian or foreign jurisdiction.

(2) A debt index based fund that seeks to replicate a particular index shall ensure that such index complies with the following norms:

- (a) The index shall have a minimum 5 issuers as its constituents.
- (b) No single issuer shall have more than 25% weight in the index.
- (c) The rating of the constituents of the index shall be investment grade.

(3) Debt index based ETF shall replicate the underlying index to the extent of at least 90% of total assets:

Provided that if the ETF is not able to replicate the index due to non-availability of issuances of the issuer forming part of the index, the FME may consider such deviations that would lead to least possible tracking error and shall be in line with the disclosures in the offer document.

### **Commodity oriented ETFs**

64. (1) Commodity based ETFs shall invest at least 90 % in the specified commodity or commodity related security / instrument as specified by the Authority.

(2) For participation in commodity based ETF, FME shall ensure a KMP with 5 years of experience in dealing with commodities is designated as a Fund Manager.

### **Gold ETF**

65. (1) In case of a Gold ETF, at least 90% of the AUM should be invested in Gold or bullion instruments such as Bullion Depository Receipts with underlying Gold and

Exchange Traded Commodity Derivatives (ETCD) with gold as the underlying:

Provided that the exposure to ETCDs having gold as the underlying shall not exceed 10% of AUM of the scheme:

Provided further the limit of 10% shall not be applicable to Gold ETFs where the intention is to take delivery of the physical Gold and not to rollover its position to next contract cycle.

(2) Gold ETFs shall be benchmarked against the price of Gold at the International Bullion Exchange and FMEs shall endeavour to have tracking error as low as possible.

(3) FMEs shall ensure that for investment in physical Gold, the Gold should have supplied by a refiner compliant with OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas.

(4) Physical Gold shall be stored with a vault registered with the Authority.

(5) Physical verification of gold underlying the Gold ETF units shall be carried out by an independent agency capable of undertaking such activities and reported to the Board of FME and fiduciaries on half yearly basis.

#### **Silver ETF**

66. (1) In case of a Silver ETF, at least 90% of the AUM should be invested in Silver or bullion instruments such as Bullion Depository Receipts with underlying Silver and Exchange Traded Commodity Derivatives (ETCD) with silver as the underlying.

Provided that the exposure to ETCDs having silver as the underlying shall not exceed 10% of AUM of the scheme.

Provided further the limit of 10% shall not be applicable to Silver ETFs where the intention is to take delivery of the physical silver and not to rollover its position to next contract cycle.

(2) Silver ETFs shall be benchmarked against the price of Silver at the International Bullion Exchange and FMEs shall endeavour to have tracking error as low as possible.

(3) FMEs shall ensure that for investment in physical Silver, the silver should have supplied by a refiner compliant with OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas.

(4) Physical Silver shall be stored with a vault registered with the Authority.

(5) Physical verification of silver underlying the Silver ETF units shall be carried out by an independent agency capable of undertaking such activities and reported to the Board of FME and fiduciaries on half yearly basis.

### **Actively Managed ETFs**

67. (1) Actively managed ETFs are ETFs for which the FME has discretion over the composition of its portfolio, subject to the stated investment objectives and policies.
- (2) An actively managed ETF shall disclose in its offer document, and all advertising material that it is an actively managed ETF and shall disclose how it will meet the stated investment policy including, where applicable, its intention to outperform an index.
- (3) Draft offer document for Actively Managed ETFs shall be filed with the recognised stock exchange(s) where such ETF is intended to list along with Authority.

### **Market Makers**

68. (1) FME shall appoint a market maker who shall be responsible for liquidity in the trading of ETF by way of providing two way quotes.
- (2) Market Makers shall be permitted to create units and seek redemptions directly from the FME.
- (3) Recognised Stock Exchanges may provide a simplified framework for authorisation of intermediaries registered with the Authority as market makers.
- (4) Recognised Stock Exchanges shall also provide detailed rules for market makers viz. maximum spread, minimum quantity, if any, incentives, margining, net-settlement etc.

### **Computation of NAV**

69. (1) FME shall compute the NAV of each ETF on a daily basis and publish the same on its website and the website of the stock exchange where it is listed.
- (2) The procedure and methodology for calculating the NAV should be fully documented, and such documentation should be regularly verified and amended, if required.

### **Redemption of ETFs to Investors**

70. (1) Investors other than market makers can directly approach the FME for redemption of ETFs, and no exit load shall be charged if
- (a) Traded price of the ETF units is at discount of more than 5% of NAV for continuous 30 trading days, or
- (b) Discount of bid price to NAV over a period of 15 consecutive trading days is

- greater than 5%, or
- (c) No quotes are available on exchange for 5 consecutive trading days, or
  - (d) Total bid size on the exchange is less than higher of 1% of the total units valued at NAV in ETF or USD 2,500 in value, averaged over a period of 7 consecutive trading days.

## **Disclosures**

71. (1) The offer document for ETFs shall clearly include all disclosures which are material for investors to make a decision regarding investing in such ETFs.
- (2) The disclosures in the offer document shall *inter-alia* include disclosures regarding the investment objective, the targeted investors, proposed corpus, investment style or strategy, investment methodology, proposed tenure of the fund or scheme proposed fees and expenses, risk management practices, KMPs of the FME and other relevant details of the FME and the scheme. The FME shall comply with the disclosure requirements in the offer document as may be specified by the Authority.
- (3) Any material deviation or alteration to the fund strategy should be made with the consent of at least two-thirds of investors by value.
- (4) The FME shall ensure that the NAV is disclosed to the investors on a daily basis and the manner of such disclosure shall be detailed in the offer document.
- (5) The FME shall ensure that the portfolio under the ETF is disclosed to the investors and the manner of such disclosure shall be detailed in the offer document.
- (6) Any other material disclosure as considered suitable by the FME or the fiduciaries shall be informed to the investors immediately.

**CHAPTER V**  
**ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)**

72. (1) A FME managing AUM above USD 1 Billion as at the close of a financial year or as may be specified by the Authority, shall:
- a. establish policy on governance around material sustainability-related risks and opportunities;
  - b. disclose in its annual report how the FME identifies, assesses and manages material sustainability-related risks;
  - c. establish and disclose in its annual report the process of factoring sustainability-related risks and opportunities into fund manager's investment strategies and processes, including, where relevant, data and methodologies used; and
  - d. comply with any other sustainability related requirements as may be specified by the Authority.
- (2) A FME that launches a scheme related to ESG, shall make full disclosure regarding investment objective, investment policy, strategy, material risk, benchmark, etc., in the manner as may be specified by the Authority.
- (3) All scheme documents filed by FME with the Authority under Chapter III shall disclose whether sustainability related risks are incorporated in the decision making. The FME shall provide details when sustainability related risks are incorporated in the decision making. A negative statement shall be included when sustainability related risks are not incorporated in the decision making.

**CHAPTER VI**  
**OTHER FUND MANAGEMENT ACTIVITIES**  
**PART A: PORTFOLIO MANAGEMENT SERVICES**

**Eligible FME and Clients**

73. (1) A registered FME may offer Portfolio Management Services to its clients in terms of these regulations.
- (2) FME in its capacity as a portfolio manager may have the following categories as clients:
- (a) a person resident outside India;
  - (b) a non-resident Indian;
  - (c) a non-individual resident in India who is eligible under FEMA to invest funds offshore, to the extent of outward investment permitted; and
  - (d) an individual resident in India who is eligible under FEMA to invest funds offshore, to the extent allowed in the liberalised remittance scheme of Reserve Bank of India.
- (3) A FME operating as a portfolio manager in an IFSC shall be permitted to invest in securities and financial products in an IFSC, India or Foreign Jurisdiction:
- Provided that in case of a discretionary portfolio management service, it shall invest in the securities listed or traded on the stock exchanges, money market instruments, units of investment scheme and other financial products as specified by the Authority from time to time.

**Disclosures**

74. (1) The FME shall provide a disclosure document to the client, prior to entering into a portfolio management agreement with the client.
- (2) The FME shall ensure that a copy of disclosure document is available on its website.
- (3) The disclosure document referred to in sub-regulation (1) shall *inter-alia* contain details pertaining to the services offered, risk factors, client representation, financial performance, performance of portfolio manager, auditor observations, nature of expenses, taxation, investor grievance redressal mechanism and litigations by the regulatory authorities against the portfolio manager and its principal officers, directors/ partners/ designated partners and key managerial personnel.
75. (1) A FME shall enter into a written agreement with the portfolio management client that clearly defines the *inter se* relationship and sets out their mutual rights, liabilities

and obligations relating to management of portfolio including details pertaining to investment objectives, risk factors, terms of fees, period of the contract, etc.

(2) Notwithstanding anything contained in the agreement between the FME and the client, the funds or securities can be withdrawn by the client before the maturity of the contract under the following circumstances, namely-

- (a) voluntary or compulsory termination of portfolio management services by the FME or the client; or
- (b) suspension or cancellation of the certificate of registration of the FME by the Authority; or
- (c) bankruptcy or liquidation of the FME.

### **Report to the Client**

76. (1) The FME shall periodically furnish a report to the portfolio management client in terms of the agreement between it and the client which shall *inter-alia* contain details relating to composition and value of the portfolio, transactions undertaken during the period of the report, beneficial interest received during the period of the report, expenses incurred in managing the portfolio and details of risk relating to the securities recommended by the portfolio manager for investment or disinvestment.

(2) The report referred to in sub-regulation (1) may be made available online with restricted access to each client.

### **Dealing with Client Funds**

77. (1) A FME shall not accept from the client, funds or securities worth less than USD 70,000 in case of a portfolio management agreement.

(2) A portfolio manager shall keep the funds of all clients in a separate account to be maintained by it in a Banking Unit.

(3) A FME shall segregate each portfolio management client's holding in securities in separate accounts.

(4) The funds received from the clients, investments or disinvestments, all the credits to the account of the client like interest, dividend, bonus or any other beneficial interest received on the investment and debit for expenses, if any, shall be properly reflected in the client's accounts.

(5) The FME shall act in a fiduciary capacity in respect of the client's funds and shall not derive any direct or indirect benefit out of the client's funds or securities.

(6) The FME shall not borrow funds or securities on behalf of the client.

### **Investment Restrictions**

78. (1) The money or securities accepted by the FME shall be invested or managed in terms of the portfolio management agreement between the FME and the client.
- (2) The FME shall not use the portfolio of its clients for investment in derivatives, unless express consent has been obtained from its clients.
- (3) The FME shall not while dealing with clients' funds indulge in speculative transactions i.e., it shall not enter into any transaction for purchase or sale of any security which is periodically or ultimately settled otherwise than by actual delivery or transfer of security except the transactions in derivatives.
- (4) A FME shall, ordinarily purchase or sell securities separately for each portfolio management client. However, in the event of aggregation of purchases or sales for economy of scale, *inter se* allocation shall be done on a *pro rata* basis and at weighted average price of the day's transactions. The FME shall not keep any open position in respect of allocation of sales or purchases effected in a day.
- (5) The FME shall segregate each clients' funds and portfolio of securities and keep them separately from its own funds and securities and be responsible for safekeeping of clients' funds and securities.
- (6) The FME shall not hold the securities belonging to the portfolio account, in its own name on behalf of its clients either by virtue of contract with clients or otherwise.
- (7) A portfolio manager (except those providing only advisory services) shall appoint a custodian in respect of securities managed or administered by it.

### **General Obligations**

79. (1) FME shall charge an agreed fee from the clients for rendering portfolio management services without guaranteeing or assuring, either directly or indirectly, any return and the fee so charged may be a fixed fee or a return based fee or a combination of both.
- (2) FME in its capacity as a discretionary portfolio manager shall individually and independently manage the funds of the client in accordance with the needs of the client, in a manner which does not partake the character of a retail fund, whereas a non-discretionary portfolio manager shall manage the funds of the client in accordance with the directions of the client.
- (3) FME shall ensure that any person or entity involved in the distribution of its services

is carrying out the distribution activities is in compliance with these regulations and directions issued by the Authority from time to time.

(4) FME shall report its performance uniformly in the disclosures to the Authority, advertising material and reports to the clients and on its website.

(5) The portfolio accounts of a FME shall be audited annually and a copy of the certificate shall be given to the client.

### **Advisory Services**

80. (1) A FME as part of its portfolio management services enter into an agreement for advisory services provided:

(a) it complies with the Regulation 43 to 50 of the IFSCA (Capital Market Intermediaries) Regulations, 2021.

(b) It complies with the code of conduct under the IFSCA (Capital Market Intermediaries) Regulations, 2021.

(c) Advisory services are for a portfolio not less than USD 70,000.

### **Multi-Family Office**

81. (1) A FME may also provide services to multi-family office under a portfolio management agreement as detailed in this chapter.

(2) The Authority may prescribe additional conditions, additional permissible investment, etc., for FMEs providing services to multi-family office under a portfolio management agreement.

## PART B: INVESTMENT TRUST

### Investment Trust in IFSCs

82. (1) Any person from IFSC or India or a foreign jurisdiction desirous to operate an Investment Trust in the IFSCs shall obtain registration with the Authority.
- (2) An Investment Trust is permitted to raise funds through:
- (a) Public issue with units listed on a recognised stock exchange in IFSC; or
  - (b) Private placement with units listed on a recognised stock exchange in IFSC; or
  - (c) Private placement whose units are not proposed to be listed on any recognised stock exchange.
- (3) The recognised stock exchange(s) in IFSC shall specify the detailed framework including on initial disclosure requirements in the offer document, continuous obligations and disclosure requirements, trading, clearing and settlement etc. for Investment Trust listed or proposed to be listed on a recognised stock exchange(s) in IFSC. The Investment Trust shall comply with the requirements prescribed by the recognised stock exchange(s).

### Definitions

83. (1) For the purpose of Part B of this Chapter,
- (a) "eligible infrastructure project" means an infrastructure project which, prior to the date of its acquisition by, or transfer to, the InvIT, satisfies the following conditions,—
    - (i) For PPP projects,—
      - (a) the Infrastructure Project is a completed and revenue generating project, or
      - (b) the Infrastructure Project, which has achieved commercial operations date and does not have the track record of revenue from operations for a period of not less than one year, or
      - (c) the Infrastructure Project is a pre-COD project;
    - (ii) In non-PPP projects, the infrastructure project has received all the requisite approvals and certifications for commencing construction of the project;
  - (b) "holdco" or "holding company" means a company or LLP or any other structure as approved by the Authority,—
    - (i) in which Investment Trusts holds or proposes to hold controlling interest and not less than fifty one per cent of the equity share capital or interest and which in

turn has made investments in other SPV(s), which ultimately hold the infrastructure assets or property(ies), as the case may be;

(ii) which is not engaged in any other activity other than holding of the underlying SPV(s), real estate/properties or infrastructure projects, as the case may be, and any other activities pertaining to and incidental to such holdings;

- (c) “Investment Trust” shall mean a REIT or an InvIT, as the case may be;
- (d) “investment management agreement” means an agreement between the trustee and the investment manager which lays down the roles and responsibilities of the investment manager towards the Investment Trust;
- (e) “investment manager” means a Fund Management Entity registered under these regulations which manages assets and investments of the Investment Trust and undertakes activities of the Investment Trust;
- (f) “InvIT” or 'Infrastructure Investment Trust' shall mean the trust registered as such under these regulations;
- (g) "InvIT assets” means assets owned by the InvIT, whether directly or through a holdco and/ or SPV, and includes all rights, interests and benefits arising from and incidental to ownership of such assets;
- (h) “parties to the Investment Trust” shall include the sponsor(s), fund management entity, trustee and project manager(s), if applicable;
- (i) “PPP project” means an infrastructure project undertaken on a Public- Private Partnership basis;
- (j) “pre-COD project” means an infrastructure project which,—
  - i. has not achieved commercial operation date as defined under the relevant project agreements including the concession agreement, power purchase agreement or any other agreement of a similar nature entered into in relation to the operation of a project or any agreement entered into with the lenders; and
  - ii. has,—
    - a. achieved completion of at least fifty percent of the construction of the infrastructure project as certified by an independent engineer of such project; or
    - b. expended not less than fifty percent of the total capital cost set forth in the financial package of the relevant project agreement;
- (k) “project implementation agreement” or "project management agreement” means an agreement between the project manager, the concessionaire SPV and the trustee

which sets out obligations of the project manager with respect to execution of the project and/or management:

Provided that in case of PPP projects, such obligations shall be in addition to the responsibilities as under the concession agreement or any such agreement entered into with the concessioning authority;

- (l) “project manager” means a company or LLP or a body corporate designated as the project manager by the InvIT, responsible for achieving execution /management of the project and in case of PPP projects, shall mean the entity responsible for such execution and achievement of project milestones in accordance with the concession agreement or any other relevant project document;
- (m) “real estate related assets” shall mean listed or unlisted debt securities and listed shares of or issued by property corporations, mortgage-backed securities, other property funds, and assets incidental to the ownership of real estate;
- (n) “REIT” or "Real Estate Investment Trust" means a trust registered as such under these regulations;
- (o) “REIT assets” means real estate assets and any other assets held by the REIT, on a freehold or leasehold basis, whether directly or through a holdco and/or a special purpose vehicle;
- (p) "special purpose vehicle " or "SPV " means any company or LLP or any other structure as approved by the Authority, -
  - (i) in which either the Investment Trust or the holdco holds or proposes to hold controlling interest and not less than fifty one percent of the equity share capital or interest:

Provided that in case of PPP projects where such acquiring or holding is disallowed by government or regulatory provisions under the concession agreement or such other agreement, this clause shall not apply and shall be subject to provisions under proviso to clause 12(3);
  - (ii) which holds not less than eighty percent of its assets directly in infrastructure projects or properties and does not invest in other SPVs; and
  - (iv) which is not engaged in any other activity other than activities pertaining to and incidental to the underlying infrastructure projects or holding or development of the property, as the case may be;
- (q) “sponsor” means any company or LLP or body corporate which sets up the Investment Trust and is designated as such at the time of application made;

- (r) “sponsor group” includes:
  - (i) the sponsor(s);
  - (ii) in case the sponsor is a body corporate:
    - (a) entities or person(s) which are controlled by such body corporate;
    - (b) entities or person(s) who control such body corporate;
    - (c) entities or person(s) which are controlled by person(s) as referred at clause b.
  - (iii) in case sponsor is an individual:
    - (a) an immediate relative of such individual (i.e., any spouse of that person, or any parent, brother, sister or child of the person or of the spouse); and
    - (b) entities or person(s) which are controlled by such individual;
- (s) “trustee” means a person who holds the assets of Investment Trust in trust for the benefit of the investors;
- (t) “valuer” means a person who is authorised to practise as a valuer under the law of the state or country where the valuation takes place;

### **Registration**

84. (1) An application for grant of certificate of registration as Investment Trust shall be made, by the sponsor on behalf of the trust in the format specified by the stock exchange(s) to the Authority, and shall be accompanied by a non-refundable fee as may be specified by the Authority.
- (2) The Authority may, in order to protect the interests of investors, appoint any person to take charge of records, documents of the Investment Trust and for this purpose, also determine the terms and conditions of such an appointment.

### **Trust**

85. (1) The following are the eligibility conditions for the Investment trust:
- (a) The trust should be incorporated under the laws of India (IFSC or outside IFSC) or foreign jurisdiction;
  - (b) The trust deed has its main objective as undertaking activity of Investment Trust (REIT or InvIT, as the case may be) and includes responsibilities of the Trustee in accordance with the requirements prescribed in these regulations;
  - (c) persons have been designated as sponsor(s), manager and trustee and all such persons are separate entities.

## **Sponsor**

86. (1) The following are the eligibility conditions for a sponsor of an Investment Trust:
- (a) Each sponsor shall hold or propose to hold not less than five percent of the number of units of the Investment Trust on post-initial offer basis; and
  - (b) Each sponsor has a net worth of not less than USD 15 million if it is a body corporate or a company or net tangible assets of value not less than USD 15 million in case it is a limited liability partnership;  
Provided that in case of REIT each sponsor has a net worth of not less than USD 3 million and the sponsor(s), on a collective basis, have a net worth of not less than USD 15 million;
  - (c) The sponsor or its associate shall have a sound track record in development of real estate or infrastructure or fund management in the infrastructure / real estate sector.  
Explanation- For the purpose of this sub-regulation, 'sound track record' means relevant experience of at least 5 years and where the sponsor is a developer, at least two projects of the sponsor have been completed;

## **Investment Manager**

87. (1) In case of private placement, any registered fund management entity shall be eligible to be appointed as Investment Manager.
- (2) In case of a public issues, a registered fund management entity (Retail) shall only be eligible to be appointed as an Investment Manager.

## **Trustee**

88. (1) The following are the eligibility conditions for a trustee of an Investment Trust:
- (a) The trustee is registered as a trustee with the Authority or any other securities regulator and shall not be an associate of the sponsor(s) or investment manager;
  - (b) The trustee has such wherewithal with respect to infrastructure, personnel, etc. to the satisfaction of the Authority and the stock exchange(s) in IFSC.

## **Fit and Proper**

89. The registration shall be granted only if the Investment Trust and parties to the Investment Trust are fit and proper persons as specified under these regulations.

## Currency

90. The units of the Investment Trust shall be in a freely convertible foreign currency other than Indian Rupee.

## Offer of units of Investment Trust

91. (1) No initial offer of units by an Investment Trust shall be made unless,—
- (a) the Investment Trust is registered with the Authority;
  - (b) the value of assets of Investment Trust is not less than USD 75 million; and
  - (c) the offer size is not less than USD 35 million;
- (2) The minimum offer and allotment to public through an offer document / placement memorandum in respect of Investment Trust listed on a stock exchange shall be as per the below table:

<i>Post Issue Capital</i>	<i>Minimum no./ value of units to be offered</i>
Less than USD 240 million	Atleast 25% of the total outstanding units of the Investment Trust
USD 240 million or more and less than USD 600 million	Atleast USD 60 million
Equal to or more than USD 600 million	Atleast 10% of the total outstanding units of the Investment Trust

Provided that any units offered to sponsor or the investment manager or the project manager or their related parties or their associates shall not be counted towards units offered to the public.

## Private Placement with listing

92. (1) The fund raising by an Investment Trust by way of private placement whose units are proposed to be listed on the stock exchange(s) shall be subject to compliance with the following:
- (a) The Investment Trust is required to obtain in-principle approval from the stock exchange(s).
- Provided that the validity of the in-principle approval shall not be greater than six months from the date of in-principle approval from the stock exchange.

- (b) The Investment Trust, through the Investment Manager or Investment Banker, shall file a placement memorandum with the Authority along-with the prescribed fee at least 5 days prior to opening of the issue.  
Provided that such opening of the issue shall not be at a date later than 3 months from the receipt of in-principle approval for listing, from exchange(s).
- (c) The Investment Trust shall raise funds from accredited investor or from investors investing not less than USD 150,000  
Notwithstanding the above, if a privately placed Investment Trust invests or proposes to invest less than eighty per cent of the value of the assets of Investment Trust in completed and revenue generating assets, the minimum investment from an investor shall be USD 1 million.
- (d) The Investment Trust shall raise funds from not less than two and not more than one thousand investors
- (e) The Investment Trust, through the Investment Manager shall file the final placement memorandum with the Authority within a period of ten working days from the date of listing of the units issued therein

#### **Private Placement without listing**

93. (1) The fund raising by an Investment Trust by way of private placement whose units are not proposed to be listed on the stock exchange(s) shall be subject to compliance with the following:
- (a) The Investment Trust shall file a placement memorandum with the Authority along with the fee atleast 5 days prior to opening of the issue  
Provided that such opening of the issue shall not be at a date later than 3 months from the receipt of in-principle approval.
  - (b) The Investment Trust shall raise funds accredited investor or from investors investing not less than USD 250,000
  - (c) The Investment Trust shall raise funds from not more than fifty investors
  - (d) The Investment Trust shall file the final placement memorandum with the Authority within a period of ten working days from the date of allotment of the units to the investors.

#### **Public Issues**

94. (1) The fund raising by an Investment Trust by way of public issue shall be subject to

compliance with the following:

- (a) The Investment Trust shall raise funds by way of initial public offer and any subsequent issue of units after initial public offer may be by way of follow-on offer, preferential allotment, qualified institutional placement, rights issue, bonus issue, offer for sale or any other mechanism and in the manner as may be specified by the Authority.
- (b) The Investment Trust, through the Investment Manager or a Registered investment banker appointed by it, shall file a draft offer document along with the fee, with the stock exchange(s) and the Authority, not less than thirty working days before filing the offer document with the stock exchange and the Authority.
- (c) The draft offer document filed with the Authority shall be made public, for comments, if any, by hosting it on the websites of the Authority, stock exchange(s) and Investment Manager, investment bankers associated with the issue, for a period of not less than fourteen days.
- (d) The draft offer document and/ or offer document shall be accompanied by a due diligence certificate signed by the lead investment manager or investment banker as the case may be.
- (e) The Authority may communicate its comments to the investment manager or investment banker within twenty one working days from the date of receipt of satisfactory reply from the investment manager or investment banker.
- (f) The investment manager or investment banker shall ensure that all comments received from the Authority on the draft offer document are suitably taken into account prior to the filing of the offer document with the designated stock exchanges.
- (g) The offer document shall be filed with the stock exchange(s) and the Authority not less than five working days before opening of the offer.
- (h) The initial offer or follow-on offer or rights issue shall be made by the Investment Trust within a period of not more than one year from the date of issuance of observations by the Authority.  
Provided that if the initial offer or follow-on offer or rights issue is not made within the specified time period, a fresh draft offer document shall be filed.
- (i) The Investment Trust may invite for subscriptions and allot units to an investor, subject to the applicable investment guidelines and permissions issued by regulators at home jurisdiction, if any.

- (j) The initial offer and follow-on offer shall not be open for subscription for a period of more than thirty days.
- (k) In case of over-subscriptions, the Investment Trust shall allot units to the applicants on a proportionate basis rounded off to the nearest integer subject to minimum subscription amount per subscriber.
- (l) The Investment Trust shall allot units or refund application money, as the case may be, within twelve working days from the date of closing of the issue.
- (m) The Investment Trust shall issue units only in dematerialized form to all the applicants.
- (n) The price of Investment Trust units issued by way of public issue shall be determined through the book building process or any other process in accordance with the circulars or guidelines issued by the Authority or the stock exchange(s).
- (o) The Investment Trust shall refund money, -
  - i. to all applicants in case it fails to collect subscription amount of exceeding ninety percent of the fresh issue size as specified in the offer document;
  - ii. to applicants to the extent of oversubscription in case the money received is in excess of the extent of over-subscription as specified in the offer document:

Provided that right to retain such over subscription cannot exceed twenty five percent of the issue size;

Provided further, that the offer document shall contain adequate disclosures towards the utilisation of such oversubscription proceeds, if any, and such proceeds retained on account of oversubscription shall not be utilised towards general purposes.
- (p) Units may be offered for sale to public if such units have been held by the existing unitholders for a period of at least one year prior to the filing of draft offer document with the Authority  

Provided that the holding period for the equity shares, compulsorily convertible securities (from the date such securities are fully paid-up) or partnership interest in the holdco and/or SPV against which such units have been received shall be considered for the purpose of calculation of one year period referred in this regulation:

Provided further that the compulsorily convertible securities, whose holding period has been included for the purpose of calculation for offer for sale, shall be converted to equity shares of the holdco or SPV, prior to filing of offer document.

- (r) The amount for general purposes, as mentioned in objects of the issue in the draft offer document filed with the Authority, shall not exceed ten per cent of the amount raised by the Investment Trust by issuance of units.

### **Offer Document or Placement Memorandum**

- 95. (1) The offer document or the placement memorandum of an Investment Trust shall contain material, true, correct and adequate disclosures to enable the investors to make an informed decision.
- (2) The offer document or placement memorandum shall include all information as prescribed by the stock exchange(s) and in the format prescribed by the stock exchange(s), including:
  - (a) Introduction
  - (b) Details of sponsor(s), Investment Manager, Project Manager, Trustee and other parties
  - (c) Brief background of the Investment Trust
  - (d) Description of the assets under the Investment Trust
  - (e) Business Details and Strategy
  - (f) Leverage
  - (g) Conflict of Interest and Related party transactions
  - (h) Valuation
  - (i) Financials
  - (j) Rights of Unit Holders
  - (k) Title disclosures, litigations and regulatory actions
  - (l) Risk Factors
  - (m) Taxation
- (3) The following documents shall be submitted to the Authority:
  - (a) Full valuation report along with the offer document/ placement memorandum
  - (b) Project implementation/management agreement, along-with draft offer document or the placement memorandum

- (c) Due diligence certificate along with the draft offer document and offer document/  
placement memorandum; and
  - (d) In principle approval from the stock exchange(s).
- (4) The placement memorandum of an Investment Trust whose units are not proposed to be listed on a stock exchange shall contain all information, to the extent applicable, as specified for an Investment Trust whose units are proposed to be listed on a stock exchange.

### **Continuous obligations and Disclosure Requirements**

96. (1) The Investment Trust listed on a stock exchange shall comply with the continuous obligations and disclosure requirements specified by the stock exchange(s).
- (2) The following disclosure requirements shall be applicable on an Investment Trust whose units are not listed on a stock exchange:
- (a) The investment manager of the Investment Trust shall submit annual report, half-yearly report and valuation report to the trustee and unit holders of the Investment Trust, either electronically or through physical copies.
  - (b) The annual and half yearly reports shall contain disclosures as specified for a privately placed Investment Trusts listed on a stock exchange.
  - (c) The investment manager shall disclose to the trustee and unit holders any information having bearing on the operation or performance of the Investment Trust which includes but is not restricted to the following—
    - i. acquisition or disposal of any projects, directly or through holdco or SPV, value of which exceeds five percent of value of the assets of Investment Trust;
    - ii. additional issue of units by the Investment Trust;
    - iii. details of any credit rating obtained by the Investment Trust and any change in such rating;
    - iv. any issue which requires approval of the unit holders;
    - v. any legal proceedings which may have significant bearing on the functioning of the Investment Trust;
    - vi. notices and results of meetings of unit holders,
    - vii. any instance of non-compliance with these regulations including any breach of limits;

- viii. any material issue that in the opinion of the investment manager or trustee needs to be disclosed to the unit holders.

### **Investment Conditions**

97. (1) The Investment Trust may invest in infrastructure or properties, as the case may be through SPVs subject to the following -
- (a) no other shareholder or partner of the SPV shall exercise any rights that prevents the Investment Trust from complying with the regulatory requirements specified by Authority and stock exchange(s) and an agreement has been entered into with such shareholders or partners to that effect prior to investment in the SPV:  
Provided that the shareholders' agreement or partnership agreement shall provide for an appropriate mechanism for resolution of disputes between the Investment Trust and the other shareholders or partners in the SPV:  
Provided further that the provisions specified by Authority and stock exchange(s) shall prevail in case of inconsistencies between such agreement(s) and the obligations cast upon an Investment Trust by Authority and stock exchange(s).
  - (b) in case the SPV is a company/LLP, the investment manager, in consultation with the trustee, shall appoint majority of the board of directors or governing board of such SPVs as applicable;  
Provided that in case of REIT the investment manager, in consultation with the trustee, shall appoint at least such number of nominees on the board of directors or the governing board of such SPVs, as applicable, which are in proportion to the shareholding or holding interest of the REIT in the SPV
  - (c) the investment manager shall ensure that the in every meeting including annual general meeting of the SPV, the voting of the Investment Trust is exercised.
- (2) The Investment Trust may invest in infrastructure projects or properties, as the case may be through holdco subject to the following:
- (a) the ultimate holding interest of the Investment Trust in the underlying SPV(s) is not less than twenty six per cent;
  - (b) no other shareholder or partner of the holdco or the SPV(s) shall exercise any rights that prevent the Investment Trust, the holdco or the SPV(s) from complying with the regulatory requirements prescribed by Authority and stock exchange(s) and an agreement has been entered into with such shareholders or partners to that effect prior to investment in the holdco and/or SPVs:

Provided that the shareholders' agreement or partnership agreement shall provide for an appropriate mechanism for resolution of disputes between the Investment Trust and the other shareholders or partners in the holdco and/or SPV;

Provided further that the provisions specified by Authority and stock exchange(s) shall prevail in case of inconsistencies between such agreement(s) and the obligations cast upon an Investment Trust by Authority and stock exchange.

- (c) the investment manager, in consultation with the Trustee, shall appoint the majority of the Board of directors or governing board of the holdco and SPV(s);

Provided that in case of REIT the investment manager, in consultation with the trustee, shall appoint at least such number of nominees on the board of directors or the governing board of the holdco and/or the SPV, which are in proportion to the shareholding or holding interest of the REIT in the SPV

- (d) the investment manager shall ensure that in every meeting including annual general meeting of the Holdco and SPV(s), the voting of the Investment Trust is exercised.

- (3) The investment can be in IFSC or India or in foreign jurisdiction:

Provided that where an investment is made in a foreign infrastructure project or real estate asset, as the case may be, the investment manager should ensure that the investment complies with all the applicable laws and requirements in that foreign country.

- (4) An Investment Trust shall hold completed and rent generating property or an infrastructure asset, as the case may be for a period of not less than three years from the date of purchase of such asset by the Investment Trust directly or through holdco and/or SPV:

Provided that this shall not apply to investment in securities of companies in infrastructure sector other than SPVs.

- (5) For any sale of property, whether by the Investment Trust or holdco or the SPV or for sale of shares or interest in the SPV by the holdco or Investment Trust exceeding ten percent of the value of Investment Trust assets in a financial year, the Investment manager shall obtain approval from the unit holders.

- (6) An Investment Trust shall not invest in units of other Investment Trust(s).

- (7) An Investment Trust shall not undertake lending to any person other than the holdco/special purpose vehicle(s) in which the Investment Trust has invested in:

Provided that investment in debt securities shall not be considered as lending.

### **Additional conditions in case of InvIT**

98. (1) The investment by an InvIT shall only be in holdco and/ or SPVs or infrastructure projects or securities in accordance with the requirements prescribed in these regulations and the investment strategy as detailed in the offer document.

Provided that in case of PPP projects, the InvIT shall mandatorily invest in the infrastructure projects through holdco and/ or SPV.

(2) In case of Public Issues of InvIT,

(a) At least 80% of the value of the InvIT assets shall be invested, proportionate to the holding of the InvITs, in completed and revenue generating infrastructure projects.

Explanations: If the investment has been made through a holdco and/ or SPV(s), only the portion of direct investments in completed and revenue generating projects by such holdco and/ or SPV(s) shall be considered under this sub-regulation and the remaining portion shall be included in the subsequent sub-regulation. If any project is implemented in stages, the part of the project which can be categorised as completed and revenue generating project shall be considered under this sub-regulation and the remaining portion shall be included under the subsequent sub-regulation.

(b) Not more than 20% of value of the InvIT assets shall be invested in:

(i) under-construction infrastructure projects, whether directly or through holdco and/ or SPVs:

Provided that investment in such assets shall not exceed ten percent of the value of the InvIT assets;

(ii) listed or unlisted debt of companies or body corporate in infrastructure sector;

Provided that this shall not include any investment made in debt of the holdco and/ or SPV(s).

(iii) equity shares of listed companies which derive not less than eighty percent of their operating income from infrastructure sector;

(iv) government securities;

(v) securities issued by a supranational agency; and

(vi) money market instruments, liquid mutual funds or cash equivalents.

(3) In respect of InvITs raised funding through public issue, if the investment conditions are breached on account of market movements of the price of the underlying assets or securities, the investment manager shall inform the same to

the trustee and ensure that the investment conditions as specified in these regulations are satisfied within six months of such breach:

Provided that the period may be extended to one year subject to approval from investors.

- (4) In case of private placement of InvIT
  - (a) At least 80% of the value of the InvIT assets in eligible infrastructure projects either directly or through holdcos or through SPVs.
  - (b) Un-invested funds may be invested in:
    - (i) listed or unlisted debt of companies or body corporate in infrastructure sector
    - (ii) Provided that this shall not include any investment made in debt of the holdco and/ or SPV(s).
    - (iii) equity shares of listed companies which derive not less than eighty percent of their operating income from infrastructure sector;
    - (iv) government securities;
    - (v) securities issued by a supranational agency; and
    - (vi) money market instruments, liquid mutual funds or cash equivalents.

#### **Additional conditions in case of REIT**

99. (1) The investment by a REIT shall be either directly or through an SPV or through holdco.
- (2) A REIT shall invest only in the following:
- (a) real estate, whether freehold or leasehold, in or outside IFSC;
  - (b) real estate related assets;
  - (c) listed or unlisted debt securities or listed shares of local or foreign non-property corporations;
  - (d) government securities;
  - (e) securities issued by a supranational agency; and
  - (f) cash and cash-equivalent items.
- (3) The investments in case of public offer should be in compliance with the following requirements:
- (a) at least 75% of the REIT assets should be invested in income-producing real estate;
  - (b) should not undertake property development activities, unless it intends to hold the developed property upon completion;

- (c) should not invest in vacant land and mortgages except for mortgage-backed securities:

Provided that this shall not apply to any land which is contiguous and extension of an existing project being implemented in stages;

- (d) the total contract value of property development activities undertaken and investments in uncompleted property developments should not exceed 10% of the REIT assets:

Provided that the total contract value of property development activities may exceed 10% subject to a maximum of 25% of the REIT assets only if:

- (i) the additional allowance of up to 15% of the REIT assets is utilised solely for the redevelopment of an existing property that has been held by it for at least three years and which the REIT will continue to hold for at least three years after the completion of the redevelopment; and
  - (ii) it has obtained specific approval of the unit holders.
- (e) for investments in debt securities or listed shares of local or foreign non-property corporations, or government securities or securities issued by a supranational agency, or cash or cash-equivalent items, not more than 5% of the REIT assets can be invested in any one issuer's securities or any one manager's funds; and
- (f) should not derive more than 10% of its revenue from sources other than:
  - (i) rental payments from the tenants of the real estate held by it, orExplanation: rental payments include income that is ancillary or incidental to the leasing of real estate such as income from use of signage space and advertising contributions by tenants.
- (g) interest, dividends and other similar payments from permissible investments.

(4) The investment restrictions and requirements in sub-regulation (d) and (e) above are applicable at the time the transactions are entered into.

(5) If the investment conditions at in sub-regulation (a) and (f) above are breached on account of market movements of the price of the underlying assets or securities or change in tenants or expiry of lease or sale of properties, the investment manager shall inform the same to the trustee and ensure that the conditions as specified in these regulations are satisfied within six months of such breach:

Provided further that the period may be extended by another six months subject to approval from unit holders.

(6) The investments in case of private placement should be in compliance with the following requirements:

- (a) At least 80% of the value of the REIT assets should be invested in eligible real estate properties either directly or through holdcos or through SPVs.
- (b) Un-invested funds may be invested in:
  - (i) listed or unlisted debt of companies or body corporate in real estate sector  
Provided that this shall not include any investment made in debt of the holdco and/ or SPV(s).
  - (ii) equity shares of listed companies which derive not less than eighty percent of their operating income from real estate sector;
  - (iii) government securities;
  - (iv) securities issued by a supranational agency; and
  - (v) money market instruments, liquid mutual funds or cash equivalents.

#### **Distribution policy**

100. (1) With respect to distributions made by the Investment Trust and the holdco and/or SPV,-

- (a) not less than ninety percent of net distributable cash flows of the SPV shall be distributed to the Investment Trust /holdco in proportion of its holding in the SPV
- (b) not less than ninety percent of net distributable cash flows of the Investment Trust shall be distributed to the unit holders;
- (c) with regard to distribution of net distributable cash flows by the holdco to the Investment Trust, the following shall be complied:
  - (i) with respect to the cash flows received by the holdco from underlying SPVs, 100% of such cash flows received by the holdco shall be distributed to the Investment Trust; and
  - (ii) with respect to the cash flows generated by the holdco on its own, not less than 90% of such net distributable cash flows shall be distributed by the holdco to the Investment Trust.
- (d) such distributions shall be declared and made not less than once every six months in every financial year in case of publicly offered InvITs and shall be made not later than fifteen days from the date of such declaration.

(2) If any infrastructure asset or property asset, as the case may be, is sold by the Investment Trust or holdco or SPV or if the equity shares or interest in the holdco/ SPV are sold by the Investment Trust,–

- (a) If the Investment Trust proposes to re-invest the sale proceeds into infrastructure asset or another property, as the case may be, it shall not be required to distribute any sales proceeds to the investors;
- (b) If the Investment Trust proposes not to invest the sales proceeds into any other infrastructure asset or property, as the case may be, within a period of one year, it shall be required to distribute the same in accordance with sub-regulation (1) above.

### **Borrowings and deferred payments**

101. (1) The following provisions shall apply to an Investment Trust listed on a stock exchange:

- (a) An Investment Trust whose units are listed on a stock exchange may issue debt securities in the manner specified by the Authority:

Provided that such debt securities shall be listed on recognized stock exchange(s).

- (b) The aggregate consolidated borrowings and deferred payments of the Investment Trust, holdco and the SPV(s), net of cash and cash equivalents shall not exceed
  - (i) seventy percent of the value of the InvIT assets in case if in InvIT
  - (ii) Forty nine percent of the value of the REIT assets

- (c) If the aggregate consolidated borrowings and deferred payments of the Investment Trust, holdco and the SPV(s), net of cash and cash equivalents exceed twenty five percent of the value of the assets of Investment Trust, for any further borrowing,–

- (i) upto forty nine percent, the Investment Trust shall -

- (a) obtain credit rating from a credit rating agency; and
- (b) seek approval of unitholders.

- (ii) above forty nine percent, an InvIT shall -

- (a) obtain a credit rating of “AAA” or equivalent for its consolidated borrowing and the proposed borrowing, from a credit rating agency.
- (b) utilize the funds only for acquisition or development of infrastructure projects;
- (c) have a track record of atleast six distributions, on a continuous

basis, post listing, in the years preceding the financial year in which the enhanced borrowings are proposed to be made; and

(d) obtain the approval of unitholders.

- (d) If the conditions specified in sub-regulation (a) and (b) above are breached on account of market movements of the price of the underlying assets or securities, the investment manager shall inform the same to the trustee and ensure that the conditions are satisfied within six months of such breach.

(2) An Investment Trust whose units are not listed on a stock exchange may undertake borrowing to the extent permitted under the trust deed, after seeking approval from such number of investors as specified in the trust deed.

### **Valuation of assets**

102. (1) A full valuation shall be conducted by the valuer at least once in every financial year:

Provided that such full valuation shall be conducted at the end of the financial year ending March 31st within two months from the end of such year.

(2) A half yearly valuation of the assets of Investment Trust shall be conducted by the valuer for the half-year ending on September 30 for incorporating any key changes in the previous six months and such half yearly valuation report shall be prepared within one month from the date of end of such half year.

Provided that in case the consolidated borrowings and deferred payments of an InvIT is above forty nine per cent, the valuation of the assets of such InvIT shall be conducted by the valuer for quarter ending June, September and December, for incorporating any key changes in the previous quarter and such quarterly report shall be prepared within one month from the date of the end of such quarter.

(3) Valuation reports received by the investment manager shall be submitted to the stock exchange(s) within fifteen days from the receipt of such valuation reports, in respect of an InvIT whose units are listed on a stock exchange.

(4) Prior to any issue of units by publicly offered Investment Trust other than bonus issue, the valuer shall undertake full valuation of all the assets and include the same in the Offer Document:

Provided that such valuation report shall not be more than six months old at the time of such offer:

Provided further that this shall not apply in cases where full valuation has been undertaken not more than six months prior to such issue and no material changes have occurred thereafter.

(5) For any transaction of purchase or sale of infrastructure projects or properties, whether directly or through holdco and/or SPVs, for publicly offered Investment Trusts,—

- (a) a full valuation of the specific project shall be undertaken by the valuer; if,—
  - (i) in case of a purchase transaction, the asset is proposed to be purchased at a value greater than hundred ten per cent of the value of the asset as assessed by the valuer;
  - (ii) in case of a sale transaction, the asset is proposed to be sold at a value less than ninety percent of the value of the asset as assessed by the valuer, approval of the unit holders shall be obtained.

(6) In case of any material development that may have an impact on the valuation of the Investment Trust assets, then investment manager shall require the valuer to undertake full valuation of the infrastructure project or property under consideration within not more than two months from the date of such event and disclose the same to the trustee and the stock exchange(s) within fifteen days of such valuation.

(7) The valuer shall not value any assets in which it has either been involved with the acquisition or disposal within the last twelve months other than such cases where valuer was engaged by the Investment Trust for such acquisition or disposal.

#### **Surrender of certificate by an Investment Trust whose units are not listed**

103. (1) A Investment Trust whose units are not listed on a stock exchange may choose to surrender its certificate of registration to the Authority and on acceptance of surrender of certificate of registration, it shall no longer undertake the activity of a Investment Trust.

(2) The Investment Trust and parties to the Investment Trust shall continue to be liable for all their acts of omissions and commissions with respect to activities of the Investment Trust notwithstanding surrender of registration to the Authority.

## **PART C: FAMILY INVESTMENT FUND**

### **Eligibility Conditions**

104. (1) Family Investment Fund could be set up in the IFSC as a Company, Trust (Contributory Trust only) or Limited Liability Partnership or any other form as may be permitted by the Authority from time to time.

Provided where the contributory vehicle is in the form of a Trust (i.e. a contributory Trust) it shall ensure that, -

- (a) the beneficiaries are identifiable based on the provisions of the Trust deed, though not specifically named in the trust deed;
- (b) the share of each beneficiary should be capable of being determined based on the provision/ formula prescribed in the trust deed and shall not be at the discretion of the trustee; and
- (c) any addition of further contributors to the Trust in addition to the initial contributors, shall not make the existing beneficiaries unknown or their shares indeterminate.

(2) The requirements under Regulation 5 and 8 on Legal form and Net-worth of an FME shall not be applicable to a Family Investment Fund.

(3) An entity intending to be a Family Investment Fund in IFSC should have and maintain a minimum corpus of USD 10 million within a period of 3 years.

(4) The Fund Investment Fund could be open-ended or close-ended, depending upon the requirements of the family.

### **Permissible Activities**

105. (1) A family Investment fund may undertake all activities related to managing family investment fund and as may be specified by the Authority.

### **Permissible investments**

106. (1) Subject to other provisions of these regulations, a family investment fund may invest money only in—

- (a) Securities issued by the unlisted entities
- (b) Securities listed or traded on stock exchanges in India including recognised stock exchanges and stock exchanges of foreign jurisdictions
- (c) Money market instruments

- (d) Debt securities
- (e) Securitised debt instruments, which are either asset backed or mortgage-backed securities
- (f) Other investment schemes set up in the IFSC, India and foreign jurisdiction
- (g) Derivatives including commodity derivatives
- (h) Physical assets such as real estate, bullion, art, etc.
- (i) Such other securities or financial assets or instruments as specified by the Authority.

Provided that pending deployment of money, FME may invest money in certificate of deposits, investment schemes, etc.

### **Borrowing**

107. A family investment fund may borrow funds or engage in leveraging activities as per their risk management ability.

## CHAPTER VII

### LISTING

#### **Listing of open ended schemes**

108. FMEs may at its discretion list open ended schemes under Chapter III on the recognised stock exchanges in IFSC.

#### **Listing of close ended scheme**

109. FMEs may at its discretion list close ended schemes under Chapter III on the recognised stock exchanges.

Provided that a close ended retail scheme shall be mandatorily listed on one of the recognised stock exchanges.

#### **Listing of ETFs**

110. Units of ETFs shall be mandatorily listed on at least one of the recognised stock exchanges.

#### **Listing of Investment Trust**

111. (1) The units of Investment Trust (except for private placement of Investment Trust whose units are neither listed nor proposed to be listed on a stock exchange) as provided under Part B of Chapter VI shall be listed on a stock exchange

(a) within 12 working days from the date of closure of the initial public offer

(b) within 30 working days from the date of allotment

Provided that this sub-regulation shall not apply if the initial offer does not satisfy the minimum subscription amount prescribed in these regulations.

(2) The listing of the units of the Investment Trust shall be in accordance with the listing agreement entered into between the Investment Trust and the stock exchange.

(3) The units of the Investment Trust listed in the stock exchange(s) shall be traded, cleared and settled in accordance with the requirements specified by the stock exchange(s) and such conditions as may be specified by the Authority.

(4) Any person other than the sponsor(s) holding units of the Investment Trust prior to initial offer shall hold the units for a period of not less than six months from the date of listing of the units.

(5) An Investment Trust whose units are not listed on a stock exchange may list such units on a stock exchange, subject to it complying with the requirements specified for privately placed and listed Investment Trust under these and in the manner specified by the Authority from time to time.

### **Approval of Stock Exchanges**

112. (1) The FME which intends to list units of its scheme or ETFs or Investment Trust on the recognised stock exchange(s), shall obtain 'in-principle' approval from recognised stock exchange(s) in the manner as specified by the recognised stock exchange(s) from time to time.

(2) The delisting of schemes or ETFs or Investment Trust shall be permitted subject to the terms and conditions as may be specified by the stock exchanges.

### **Disclosures**

113. Schemes or ETFs or Investment Trust listed on the recognized stock exchanges shall make such disclosures as may be specified by the Authority or the recognized stock exchanges.

### **Secondary Listing of an ETF or Investment Trust listed in India or Foreign Jurisdiction**

114. (1) An ETF or Investment Trust (by whatever name it may be called outside IFSC) may be allowed to list and trade on a recognised stock exchange provided:

(a) The ETF or Investment Trust, as the case may be is listed in India (outside IFSC) or in a foreign jurisdiction; and

(b) The ETF or Investment Trust is in compliance with the law of its home jurisdiction.

(2) The application for listing of such ETF or Investment Trust shall be filed with the recognised stock exchange(s) in the format and manner prescribed by the stock exchange(s).

(3) The recognised stock exchange(s) may exempt the continuous obligations and disclosure requirements for ETFs or Investment Trust listed on the recognised stock exchange(s), provided that the FME releases all information and documents in English to the recognised stock exchange(s) in IFSC at the same time as they are released to the home exchange where it has a primary listing.

### **Suspension of Listing and Trading**

115. (1) The Authority or the recognised stock exchange may suspend the listing and trading of units of an Investment Trust or schemes or ETF if:
- (a) the Investment Trust or parties to the Investment Trust or the FME are in non-compliance with the regulatory provisions prescribed by Authority or the stock exchange(s).
  - (b) the Investment Trust or schemes or ETF is suspended in any other stock exchange.
  - (c) the suspension is required for ensuring orderly operation of market.
- (2) The recognised stock exchange may restore the listing and trading of Investment Trust or schemes or ETF that have been suspended if it considers that the suspension is no longer required.

### **Delisting by stock exchange**

116. (1) The stock exchange may delist Investment Trust or schemes or ETF if it is satisfied that -
- (a) the Investment Trust / Scheme / ETF is suspended for trading for more than six months or parties to Investment Trust or FME are not taking adequate action to obtain restoration of listing and trading;
  - (b) the Investment Trust or parties to Investment Trust or FME is no longer eligible for listing or trading; or
  - (c) the Investment Trust or schemes or ETF have been compulsorily delisted from another exchange; or
  - (d) if the exchange is satisfied that there are special circumstances that require delisting of the Investment Trust or schemes or ETF; or
  - (e) it is directed to do so by the Authority or any other relevant authority or any court order of applicable jurisdiction

### **Voluntary Delisting**

117. The stock exchange may delist Investment Trust or scheme or ETF, based on request received from the Investment Trust or FME, in the manner prescribed by the stock exchange or the Authority.

**CHAPTER VIII**  
**GENERAL OBLIGATIONS AND RESPONSIBILITIES**

**Code of Conduct**

118. Every FME, its fiduciaries, KMPs (including Principal officer, Fund Managers and Designated Compliance Officer) shall abide by the Code of Conduct as specified in Third Schedule.

**Maintenance of books of account, records and other documents**

119. (1) Every FME shall keep and maintain proper books of account, records and documents, for each scheme so as to explain its transactions and to disclose at any point of time the financial position of each scheme and in particular give a true and fair view of the state of affairs of the fund and intimate to the Authority the place where such books of account, records and documents are maintained.

(2) Every FME shall maintain and preserve the at least the following books of accounts, records and documents, in electronic retrieval form for a minimum of ten years, namely:

- (a) a copy of the balance sheet at the end of each accounting period;
- (b) a copy of profit and loss account for each accounting period;
- (c) a copy of the auditor's report on the accounts for each accounting period;
- (d) a statement of net worth for each quarter;
- (e) documents relating to compliance with AML and CFT guidelines;
- (f) documents relating to account opening of each client and any power of attorney or signature authority forms of the clients;
- (g) relevant records and documents relating to its activities under these regulations;  
and
- (h) such other books of accounts, records and documents as may be specified by the Authority from time to time.

(3) The FME shall be required to maintain following records describing:

- (a) the assets under each scheme;
- (b) valuation policies and practices;
- (c) investment strategies;
- (d) particulars of investors and their contribution;
- (e) rationale for investments made.

(4) The records under sub-regulation (3) shall be maintained for a period of five years after the winding up of the fund.

### **Information to the Authority**

120. (1) FME, Fiduciaries or any person involved in the activities as detailed in these regulations shall furnish such reports, returns, statements and particulars, in such manner, interval and form, as may be specified by the Authority from time to time.
- (2) The Authority may call for any information, documents or records from FME and entities employed by FME for any related functions on activities detailed under these regulations.
- (3) Where any information is called for under sub-regulation (2) it shall be furnished within the time specified by the Authority.

### **Business Continuity Plan**

121. (1) A registered FME shall maintain a business continuity plan identifying procedures relating to an emergency or significant business disruption.
- (2) A registered FME shall update its business continuity plan in the event of any material change to operations, structure, business, or location.
- (3) A registered FME shall conduct an annual review of its business continuity plan.

### **Cyber Security and Cyber Resilience**

122. A registered FME shall have robust cyber security and cyber resilience framework in accordance with the requirements as may be specified by the Authority from time to time.

### **Risk Management and Internal Controls**

123. (1) A FME shall have a sound risk management system for comprehensively managing all risks.
- (2) A FME shall have adequate internal procedures and controls, given the types of business in which it engages (including any activities which have been outsourced) with the aim of protecting the interests of clients/investors and their assets and ensuring proper management of risk.

### **Guaranteed returns**

124. (1) No guaranteed return shall be provided in a scheme or under an agreement for PMS,
- (a) unless such returns are fully guaranteed by the FME;
  - (b) unless a statement indicating the guarantee including details thereof is made in the offer document / agreement;
  - (c) the manner in which the guarantee is to be met has been stated in the offer document / agreement.

### **Change in control**

125. (1) A FME in IFSC shall seek prior approval of the Authority in case of any direct or indirect change in control of the FME:

Provided that a FME operating in the form of branch in an IFSC shall only inform the Authority within fifteen days if such an approval is required by the sectoral regulator in its principal place of operations.

- (2) The Authority may consider such request for change in control subject to certain conditions including offering exit opportunity to investors.

### **Payment of Fees**

126. A FME shall pay the fees pertaining to annual fees, scheme filing fee or any other fees as may be specified by the Authority from time to time.

### **Advertisements**

127. Advertisements shall be in conformity with the Advertisement Code as specified in the Fifth Schedule.

### **Fees and Expenses of the Schemes**

128. (1) All fees and expenses should be clearly identified and appropriated in the individual schemes.
- (2) The FME shall ensure suitable disclosure in the offer document / placement memorandum regarding the maximum fees and expenses that it may charge. Each expense item shall be disclosed separately as a specific line item in the offer document / placement memorandum.

### **Appointment of Investment Committee**

129. (1) FME may, at its discretion, constitute an Investment Committee to make investment decisions for the schemes.
- (2) All responsibilities casted upon the FME and Fund Managers under these regulations to the extent applicable shall also be complied with by the members of such Investment Committee.

### **Merger/ demerger/ restructuring of schemes:**

130. Merger/ demerger/ restructuring of schemes shall be permissible, subject to the guidelines as may be issued by the Authority.

### **Winding up of the Scheme and Directions by Authority**

131. (1) A scheme of the FME may be wound up:
- (a) When the tenure of the scheme as mentioned in the placement memorandum / offer document is over;
  - (b) If 75% of the investors, by value of their investment in the scheme, pass a resolution at a meeting of investors that the scheme be wound up.
- (2) The Authority in the interest of investors and for orderly development of the financial market may direct a FME to
- (a) wound up a scheme subject to such conditions as considered appropriate.
  - (b) merge certain schemes
  - (c) manage schemes of other FMEs

### **Appointment of Custodian**

132. The FME shall appoint an independent custodian to carry out the custodial services at least for the following schemes:
- (1) Retail schemes
  - (2) Open ended restricted schemes and
  - (3) All other schemes managing AUM above USD 10 Million

### **Redemption of Close ended scheme**

133. A close ended scheme shall be fully redeemed at the end of maturity period: Provided the scheme is not rolled over as provided under these regulations.

### **Scheme Annual Report**

134. (1) FME shall prepare in respect of each financial year an annual report of accounts of the schemes and abridged summary thereof.

The same shall be provided to the Authority not later than four months from the end of financial year.

(2) The Annual Report and abridged summary shall contain details that are necessary for the purpose of providing a true and fair view of the operations of the scheme.

(3) An abridged summary of the same shall be shared with investors and the Authority within four months from the end of the financial year.

Provided that if an investor seeks the full Annual report, FME shall provide the same within 15 days.

### **Auditor's report**

135. (1) Every FME shall have the annual statement of accounts audited by an auditor who is not in any way associated with the FME.

(2) An auditor shall be appointed by the fiduciaries.

(3) The auditor shall forward his report to the fiduciaries and such report shall form part of the Annual Report of the schemes.

### **Other disclosures to the investors**

136. (1) The FME shall ensure that investors are provided information about their holding in the FME at the end of every month and within 5 working days in case of receipt of such request from an investor.

(2) The fiduciaries shall be bound to make such disclosures to the investors as are essential in order to keep them informed about any information which may have an adverse bearing on their investments.

### **Restrictions on business activities of the FME**

137. The FME shall not undertake any business activities other than as provided under these regulations unless prior approval is sought from the Authority.

Provided that a FME operating in the form of branch in an IFSC shall only inform the Authority within fifteen days for its activities outside IFSC if such an approval is required by the sectoral regulator in its principal place of operations.

**CHAPTER IX**  
**INSPECTION AND AUDIT**

**Inspection**

138. (1) The Authority may *suo motu* or upon receipt of information or complaint at any time appoint one or more persons as inspecting authority to undertake the inspection of the books, accounts, records, documents, infrastructure, procedures, systems of an FME or any other entity associated with the activities under these regulations for any purpose or to investigate the affairs of schemes and activities as detailed under these regulations including the purposes as specified under sub-regulation (2).

(2) The purposes referred to in sub-regulation (1) may include, -

- (a) to ensure that the books of account, records and documents are being maintained in the manner as required under these regulations;
- (b) to ensure that the provisions of the Act, the regulations and circulars made thereunder, are complied with;
- (c) to ascertain whether adequate internal control systems, procedures and safeguards have been established or are being followed by the FME or other entities to fulfil its obligations under these regulations;
- (d) to ascertain whether any circumstances exist which would render the FME or other entities unfit or ineligible;
- (e) to inquire into the complaints received from the investors, clients, other market participants, or any other person on any matter having a bearing on the activities of the FME; and
- (f) to inquire *suo motu* into such matters as may be deemed fit in the interest of investors or the financial market in IFSC.

(3) Before undertaking an inspection under sub-regulation (1), the inspecting authority shall give a notice to the FME or such other entity:

Provided that where the inspecting authority is satisfied that in the interest of the investors no such notice should be given, it may, for reasons to be recorded in writing, dispense with such notice.

**Obligations of FME on inspection**

139. (1) Where an inspection of an FME is undertaken by the Authority, such FME and every principal officer, partner, designated partner, trustee, director, chairperson, officer,

employee and any agent of the FME shall provide all assistance and cooperate with the inspection authority and shall furnish books of accounts, records and documents to the inspection authority with such statements and information relating to its activities within such time as decided by the inspection authority.

(2) The FME shall give all assistance as may be required in connection with the inspection and allow the inspecting authority to have reasonable access to its premises and extend reasonable facility for examining any books of accounts, records and documents in its possession, and also provide copies of records or documents or other material which in the opinion of the inspecting authority are relevant for the purposes of the inspection.

(3) The inspecting officer, in the course of inspection or investigation, shall be entitled to examine or record the statements of any principal officer, partner, designated partner, trustee, director, chairperson, officer, employee and any agent of the FME

(4) It shall be the duty of every principal officer, partner, designated partner, trustee, director, chairperson, officer, employee and any agent of the FME to give to the inspecting officer all assistance in connection with the inspection or investigation, which the inspecting officer may require.

### **Appointment of auditor or valuer**

140. (1) The Authority may appoint an auditor to inspect the books of account, records, documents infrastructures, systems and procedures or affairs of a FME:

Provided that the auditor so appointed shall have the same powers of an inspecting authority:

Provided further that a FME and its employees shall have the same obligations as specified in regulation 138.

(2) The Authority may appoint a valuer to value the scheme assets if considered necessary.

(3) The Authority shall be entitled to recover expenses including fees paid to the auditors as may be incurred by it for the purposes of inspecting the books of account, records and documents of the FME and various schemes launched by it.

### **Submission of report**

141. The inspecting authority shall submit an inspection report to the Authority, and the Authority may take such action as it may deem fit and appropriate.

Provided that if directed to do so by the Authority, the inspecting Authority may submit an interim report.

**Action by the Authority upon inspection**

142. (1) The Authority may after consideration of the inspection report and after giving reasonable opportunity of hearing to the FME or its directors or employees or principal officer issue such direction as it deems fit in the interest of financial market or the investors including directions in the nature of :—
- (a) requiring FME not to launch new schemes or raise money from investors for a particular period;
  - (b) prohibiting the person concerned from disposing of any of the properties of the fund or scheme acquired in violation of these regulations;
  - (c) requiring the person connected to dispose of the assets of the fund or scheme in a manner as may be specified in the directions;
  - (d) requiring the person concerned to refund any money or the assets to the concerned investors along with the requisite interest or otherwise, collected under the scheme;
  - (e) prohibiting the person concerned from operating in the financial market or from accessing the financial market for a specified period.

**CHAPTER X**  
**LIABILITY FOR ACTION IN CASE OF DEFAULT**

**Suspension, cancellation of registration or any other actions**

143. (1) The Authority may take such action as deemed fit, including suspension or cancellation of registration, against a FME if it:
- (a) fails to exercise due diligence or comply with any conditions subject to which a certificate of registration has been granted;
  - (b) contravenes any of the provisions of the Act or rules or regulations or circulars or guidelines or directions or instructions issued thereunder;
  - (c) fails to furnish any information relating to its activity as an FME as required by the Authority;
  - (d) furnishes to the Authority information which is false or misleading in any material particular;
  - (e) does not submit periodic returns or reports as required by the Authority;
  - (f) does not co-operate in any enquiry, inspection or investigation conducted by the Authority
  - (g) fails to resolve the complaints of investors or fails to give a satisfactory reply to the Authority

**CHAPTER XI**  
**POWER TO RELAX, ISSUE CLARIFICATIONS AND SPECIFY ADDITIONAL**  
**REQUIREMENTS**

**Power to relax strict enforcement of the regulations**

144. (1) The Authority, for reasons to be recorded in writing, may in the interest of development of financial market in IFSC, relax the strict enforcement of any requirements of these regulations.
- (2) For seeking relaxation under sub-regulation (1), an application giving details and the grounds on which such relaxation has been sought, shall be filed with the Authority along with a non-refundable fee as may be specified by the Authority..
- (3) The Authority shall process such application within sixty days of the date of receipt of the application complete in all respects including responses to clarifications sought and shall record reasons for acceptance or refusal of the relaxations sought by the applicant.

**Innovation Sandbox and Fund Lab**

145. (1) The Authority may, exempt any person or class of persons from the operation of all or any of the provisions of these regulations for a period as may be specified but not exceeding eighteen months, for furthering innovation in aspects relating to testing new products, strategies, processes, services, business models, use of technology, etc. in live environment of regulatory sandbox in the financial markets.
- Provided that any experiment in a fund towards a new strategy shall not solicit money from public and shall be governed by a framework specified by the Authority.
- (2) Any exemption granted by the Authority under sub-regulation (1) shall be subject to the applicant satisfying such conditions as may be specified by the Authority including conditions to be complied with on a continuous basis.

**Power to specify norms, procedures, issue clarifications and remove difficulties**

146. (1) For the purposes of implementation of these regulations and matters incidental thereto, the Authority may specify norms, procedures, processes, additional requirements, etc. by way of circulars or guidelines or directions to FME or entities related to activities as detailed under these regulations.
- (2) In order to remove any difficulties in the interpretation or application of the

provisions of these regulations, the Authority shall have the power to issue directions through guidance notes or circulars.

## CHAPTER XII MISCELLANEOUS

### **Delegation of powers.**

147. The powers exercisable by the Authority under these regulations shall also be exercisable by any officer of the Authority to whom such powers are delegated by the Authority by means of an order under the Act.

### **Repeal and Savings**

148. (1) On and from the commencement of these regulations i.e. the effective date, Chapter VI on Funds of the Securities and Exchange Board of India (International Financial Services Centres) Guidelines, 2015 shall not apply in an IFSC.

(2) On and from the effective date, Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012, Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, shall not apply in an IFSC.

(3) On and from the effective date, SEBI Circulars viz. SEBI/HO/IMD/DF1/CIR/P/143/2018 dated November 26, 2018, SEBI/HO/IFSC/CIR/P/2019/91 dated August 9, 2019, and IFSCA Circulars of AIFs viz. Circular No. 81/IFSCA/AIFs/2020-21 dated December 9, 2020, Circular No. 81/IFSCA/AIFs/2020-21/02 dated June 2, 2021 and Circular No. 81/IFSCA/AIFs/2020-21/03 dated June 25, 2021, IFSCA Circulars on REIT and InvIT Circular no. 41/IFSCA/SEBI/REITs-InvITs/2020-21 dated October 20, 2021 shall stand superseded.

(4) Notwithstanding anything contained in sub-regulations (1), (2) and (3),

(a) any action taken or purported to have been taken under the regulations, guidelines and circulars mentioned in sub-regulations (1), (2) and (3) before the commencement of these regulations shall be deemed to have been done or taken or commenced under the corresponding provisions of these regulations.

(b) any private placement memorandum, whether draft or otherwise, filed or application made to the Authority before the effective date shall be deemed to have been filed or made under the corresponding provisions of these regulations. All Fund Managers of AIFs registered by the Authority shall seek registration from the Authority under these regulations within six months from the effective date.

**FIRST SCHEDULE**  
**(Regulation 4)**  
**APPLICATION FORM**

S. No.	Particulars	Details
<b>1. Category of Application</b>		
	a) Application for Authorised Entity	
	b) Application of Registered Entity (Non-Retail)	
	c) Application for Registered Entity (Retail)	
<b>2. Details of the Applicant:</b>		
<b>2.1</b> Initial Details of the applicant		
	a) Name of the applicant	
	b) Legal Form of the Applicant	
	c) Corporate Identification Number	
	d) Date of Incorporation	
	e) Address of office in IFSC	
	f) Telephone number(s)	
	g) E-mail address	
	h) Name, Telephone number and Email address of Principal Officer and Compliance Officer	
<b>2.2</b> In case of Branch		
	a) Address of Registered Office	
	b) Telephone number(s)	
	c) E-mail address	
	d) Name, Telephone number and Email address of CEO	
<b>2.3</b>	Brief Business profile of the Applicant a) Details of Business activities b) Details of Experience in Fund Management (including no. of investors served, AUM managed, etc.)	

	c) Place of Presence d) Founding Persons e) Details of listing, if any	
<b>2.4</b>	Details of Registrations with IFSCA & Financial Sectoral Regulators in India or Foreign Jurisdictions, if any  (Category of Registration, Registration number, Date of Registration and Validity, Details for applicant / controlling shareholders)	
<b>2.5</b>	Details of SEZ Approval	
<b>2.6</b>	Details of the Business Activities of Associate entities in IFSC , If any	
<b>2.7</b>	Details of infrastructure in IFSC for conducting activities as FME	
<b>3. Financial Information (As per last Audited Financial Statement, not to be older than 6 months)</b>		
<b>3.1</b>	<b>Period of Financial Year</b>	
	a) Net Worth as on latest Financial Year	
	b) Total Sales	
	c) Profit from Operations	
<b>3.2</b>	<b>Details of Shareholding and Capital Structure</b>	
	a) Authorized Capital	
	b) Paid up Capital / Partners Capital	
	c) Details of the Shareholding structure	
	d) Details of the latest Shareholder(s) holding 5% & above share / Partners Capital/ Person's in Control  1. Name 2. PAN 3. No. of Shares 4. Address 5. % of Shareholding	
<b>3.3</b>	Currency in which Account to be maintained by the applicant	

<b>4. Business Plan</b>			
4.1	Detailed Business Plan for various activities in IFSC under FME: a) Overall Business Plan b) Details of activities over Short, Medium and Long Term c) Target Investors d) Details for ring-fencing operations, in case of branch		
<b>5. Detail of Controlling Shareholders / Partners / Directors and Key Executives</b>			
<b>5.1</b>	<b>Details of the Controlling Shareholders / Directors / CEO / Partners &amp; Designate partners*</b>		
	Particulars	<b>1</b>	<b>2</b>
	a) Name		<b>3</b>
	b) Designation/ Legal form in case of Company/ LLP		
	c) DIN/ DPIN/ Registration No.		
	d) PAN		
	e) Communication Address		
	f) Email		
	g) % of Shareholding in the applicant		
	h) Shareholding Pattern & Details of Shareholders (Top 5)		
	i) Is the person from FATF Compliant jurisdiction?		
	j) Brief Profile:		
<b>5.2</b>	<b>Details of Key Executives for IFSC Office</b>	<b>1</b>	<b>2</b>
	a) Name		
	b) Designation		

	c) DIN/ DPIN		
	d) PAN		
	e) Date of Appointment		
	f) Communication Address		
	g) Email		
	h) Mobile and Landline number		
	i) Detailed Education Qualification & Certifications		
	j) Detailed Experience		
<b>6. Details of Regulatory Actions</b>			
6.1	Details of Regulatory Actions (Material action against the applicant, Board of Directors, CEO, Key Managerial Personnel or Controlling shareholders)		
6.2	Whether the Applicant or its Directors or Partners / controlling shareholders has/ have been refused a certificate by the IFSCA or any other regulatory authority or its/ their certificate has been suspended at any time prior to this application. (If Yes, provide details. If No, enclose a declaration to that effect).		
6.3	Court Cases or Litigations involving the applicant in last 3 years		
<b>7. Confirmations &amp; Declarations</b>			
Declaration cum undertaking on the letter head of the applicant:			
<p>a) We hereby declare that the information supplied in the application, including the attachment sheets, is complete and true.</p> <p>b) The activities proposed in the IFSC are in line with the object clause.</p> <p>c) The applicant and its principal officers, directors/ partners/ designated partners, key managerial personnel and controlling shareholders are fit and proper persons.</p> <p>d) We shall ringfence the operations of branch from other operations of the applicant (applicable in case of branch)</p>			

- e) We shall notify IFSCA immediately of any material change in the information provided in the application.
- f) We shall ensure that the key activities of Investment decision, portfolio management and grievance handling shall be undertaken from IFSC.
- g) We further undertake to comply with, and be bound by the International Financial Services Centres Authority Act, 2019, and the regulations, circulars, guidelines and instructions thereunder as issued by IFSCA from time to time.
- h) We further agree that as a condition of registration, we shall abide by such operational instructions/directives as may be issued by the IFSCA from time to time.

For and on behalf of (Please insert name of the applicant)

Authorised signatory

(Name)(Signature)

Date:

Place:

**Documents to be annexed with the application**

1. Copy of the Certificate of Incorporation /Registration document of the Applicant.
2. Latest Memorandum and Articles of Association / Partnership Deed) of the Applicant as may be applicable
3. Last 3 years audited consolidated financial statements of the Applicant
4. Net-worth certificate by an Auditor
5. Detailed CV of the principal officer
6. Copy of authorisation for application by an authorized representative
7. Last 3 years audited financial statements of the Applicant
8. KYC Details - PAN & Address proof of directors / person (s) in control/ KMP's and Employees in IFSC
9. Tax Identification Document of the applicant
10. Copy of SEZ approval
11. Copy of the proof of payment for the application fees paid
12. Declaration on the letter head of the company duly signed by the authorized signatory.

**Date**

**Signature**

**Place**

**(Name and Designation)**

**SECOND SCHEDULE**  
**NET WORTH REQUIREMENTS**

<b>S. No.</b>	<b>Category</b>	<b>Net Worth</b>
1	Authorised FME	USD 75,000
2	Registered FME (Non-retail)	USD 5,00,000
3	Registered FME (Retail)	USD 1,000,000

**THIRD SCHEDULE**  
**CODE OF CONDUCT AND OBLIGATIONS**

**PART A: CODE OF CONDUCT AND OBLIGATIONS OF THE FUND MANAGEMENT ENTITY**

- (a) The FME shall take all reasonable steps and exercise due diligence to ensure that the investment of funds pertaining to any scheme is not contrary to the provisions of these regulations.
- (b) The FME shall be responsible for the acts of commission or omission by its employees or the persons whose services have been procured by the FME.
- (c) Notwithstanding anything contained in any contract or agreement or termination, the FME or its directors or partners or other officers shall not be absolved of liability to the scheme or its investors for their acts of commission or omission, while holding such position or office.
- (d) The Chief Executive Officer (whatever be the designation) of the FME shall ensure that the FME complies with all the provisions of these regulations and the guidelines or circulars issued in relation thereto from time to time and that the investments made by the FME are in the interest of the unit holders and shall also be responsible for the overall risk management function of the FME.
- (e) The FME shall not appoint any person as key personnel who has been found guilty of any economic offence or involved in violation of securities laws.
- (f) The FME shall compute and carry out valuation of investments made by its scheme(s) in accordance with the investment valuation norms specified in Sixth Schedule, and shall publish the same.
- (g) The FME and its controlling shareholders shall be liable to compensate the affected investors and/or the scheme for any unfair treatment to any investor as a result of inappropriate valuation.
- (h) The FME must ensure that all investors are provided with adequate, accurate, explicit and timely information fairly presented in a simple language about the investment policies, investment objectives, financial position and general affairs of the scheme.
- (i) The FME shall ensure that the assets and liabilities of each scheme are segregated and ring-fenced from other schemes of the FME; and bank accounts and securities accounts of each scheme are segregated and ring-fenced.
- (j) The FME must not use any unethical means to sell, market or induce any investor to buy

their schemes.

- (k) The FME shall maintain high standards of integrity and fairness in all their dealings and in the conduct of their business.
- (l) The FME shall render at all times high standards of service, exercise due diligence, ensure proper care and exercise independent professional judgment.
- (m) The FME shall not make any exaggerated statement, whether oral or written, either about their qualifications or capability to render investment management services or their achievements.
- (n) The FME shall ensure compliance with the Anti-Money Laundering/ Combating the Financing of Terrorism (AML/CFT) norms as applicable.

**PART B: CODE OF CONDUCT AND OBLIGATIONS OF BOARD OF FIDUCIARIES (DIRECTORS / DESIGNATED PARTNERS / TRUSTEES OF THE FUND)**

- (a) Based on the legal structure of the fund/scheme, the Board of Directors in case of Company, Designated Partners in case of LLP and Trustees (including the Board in case of a Trustee company) in case of a Trust shall
  - (i) ensure that the funds of the schemes are invested to achieve the objectives of the scheme and in the interest of the investors.
  - (ii) the assets and liabilities of each scheme are segregated and ring-fenced from other schemes of the FME; and bank accounts and securities accounts of each scheme are segregated and ring-fenced.
  - (iii) ensure that different activities of FME are carried at arm's length and interest of investor under one activity are not being compromised with those of any other scheme or of other activities of the FME.
  - (iv) have a right to obtain from the FME such information as is considered necessary.
  - (v) render at all times high standards of service, exercise due diligence, ensure proper care and exercise independent professional judgment.
  - (vi) obtain internal audit reports from independent auditors as and when deemed appropriate.
  - (vii) hold frequent meetings to ensure it discharges the various responsibilities under these regulations.
  - (viii) communicate in writing to the FME of the deficiencies and checking on the rectification of deficiencies.
  - (ix) ensure before the launch of any scheme that it has,—

- (a) systems in place for its back office, dealing room and accounting;
  - (b) appointed all key personnel;
  - (c) appointed auditors to audit its accounts;
  - (d) designated a compliance officer who shall be responsible for monitoring the compliance of the Act, rules and regulations, notifications, guidelines, instructions, etc., issued by the Authority or the Central Government and for redressal of investors grievances;
  - (e) appointed fund administrators registered with the Authority or capabilities to undertake such activities in-house by the FME
  - (f) obtained, wherever required under these regulations, prior in principle approval from the recognised stock exchange(s) where units are proposed to be listed.
- (x) ensure that FME has not given any undue or unfair advantage to any associates or dealt with any of the associates of the FME in any manner detrimental to interest of the investors.
  - (xi) quarterly review all transactions carried out between the schemes, FME and its associates.
  - (xii) shall on a yearly basis review the net-worth of the FME to ensure compliance with the threshold provided in Second Schedule on a continuous basis.
  - (xiii) shall ensure that the scheme/fund property is properly protected, held and administered by proper persons and by a proper number of such persons.

**PART C: CODE OF CONDUCT AND OBLIGATIONS OF PRINCIPAL OFFICER, FUND MANAGER AND COMPLIANCE OFFICER**

- (a) The Principal Officer shall ensure that all the activities of the FME are in accordance with the provisions of these regulations and various circulars and guidelines issued thereunder.
- (b) The Principal Officer shall ensure that the funds of the schemes are invested to achieve the objectives of the scheme and in the interest of the investors.
- (c) Where the Principal Officer has reason to believe that the conduct of business of the FME is not in accordance with these regulations it shall forthwith take such remedial steps as are necessary by it and shall immediately inform the Authority of the violation and the action taken by it.
- (d) The Principal Officer shall periodically review the investor complaints received and shall

ensure immediate redressal of the same by the FME.

- (e) Principal Officer and Fund Managers shall:
- (i) abide by the Act, Rules, Regulations, Guidelines and Circulars governing the securities market;
  - (ii) strive for highest ethical and professional standards to enhance the reputation of the markets;
  - (iii) act honestly in dealings with other market participants;
  - (iv) act fairly and deal with market participants in a consistent and transparent manner;
  - (v) act with integrity, particularly in avoiding questionable practices and behaviour;
  - (vi) not indulge in any unethical business activities or professional misconduct involving dishonesty, fraud or deceit or commit any act that could damage the reputation of the organisation or the fund management industry;
  - (vii) identify existing or potential conflicts of interest as per their institutions policies and address the same;
  - (viii) not carry out any transaction on behalf of a scheme with any counter party who is an associate of the FME / controlling shareholders unless such transaction is carried
    - a. out on arm's length basis after taking into account the interest of investors and;
    - b. in terms of the provisions of these regulations and circulars issued thereunder.
  - (ix) not offer or accept any inducement in connection with the affairs or business of managing the funds of investors which is likely to conflict with the duties owed to the investors;
  - (x) not receive any gift or entertainment which is not in adherence of the gift and entertainment policy of the FME framed in this regard.
- (f) The KMP designated as compliance officer shall
- (i) be responsible for monitoring the compliance of the Act, rules and regulations, notifications, guidelines, instructions, etc., issued by the Authority and for redressal of investors grievances immediately.
  - (ii) independently report to the Authority any non-compliance observed by him.

## **PART D: CONFLICT OF INTEREST**

- (a) The FME shall act in a fiduciary capacity towards its investors and shall disclose to the investors, all of interests as and when they arise or seem likely to arise.
- (b) FME shall establish and implement written policies and procedures to identify, monitor and appropriately mitigate conflicts of interest throughout the scope of business.
- (c) FME shall abide by high level principles on avoidance of conflicts of interest with associated persons, as may be specified by the Authority from time to time.
- (d) FME shall ensure that different activities of FME are carried at arm's length and interest of investor under one activity are not being compromised with those of any other scheme or of other activities of the FME.

## **PART E: CODE OF CONDUCT AND OBLIGATIONS OF THE FUND MANAGEMENT ENTITY ACTING AS A PORTFOLIO MANAGER**

- (a) A FME acting as a Portfolio Manager shall
  - (i) ensure that the money received from the client for an investment purpose is deployed as soon as possible for that purpose and money due and payable to a client is paid forthwith.
  - (ii) not execute any trade against the interest of the clients in its proprietary account.
  - (iii) obtain in writing, interest of the client in various corporate bodies which enables such client to obtain unpublished price sensitive information of such corporate bodies.
  - (iv) where necessary and in the interest of the client, take adequate steps for the transfer of the clients' securities and for claiming and receiving dividends, interest payments and other rights accruing to the client.
  - (v) take necessary action for conversion of securities and subscription for renunciation of rights in accordance with the clients' instruction.
  - (vi) not use its status as any other registered intermediary to unduly influence the investment decision of the clients while rendering portfolio management services.
  - (vii) not make any statement or indulge in any act, practice or unfair competition, which is likely to be harmful to the interests of other portfolio managers or is likely to place such other portfolio managers in a disadvantageous position in relation to the portfolio manager himself, while competing for or executing any assignment.

- (viii) ensure that the investors are provided with true and adequate information without making any misleading or exaggerated claims and are made aware of attendant risks before any investment decision is taken by them;
- (ix) render the best possible advice to the client having regard to the client's needs and the environment, and his own professional skills; and
- (x) ensure that all professional dealings are effected in a prompt, efficient and cost effective manner.

## **FOURTH SCHEDULE**

### **ROLES AND RESONSIBILITIES FOR PARTIES TO AN INVESTMENT TRUST**

#### **PART A: ROLES AND RESONSIBILITIES OF TRUSTEE**

- (a) The trustee shall hold the Business assets in trust for the benefit of the unit holders in accordance with the trust deed and the requirements prescribed in these regulations.
- (b) The trustee shall enter into an investment management agreement with the investment manager on behalf of the Investment Trust.
- (c) The trustee shall oversee activities of the investment manager in the interest of the unit holders and ensure that the investment manager complies with the responsibilities and shall obtain compliance certificate from the investment manager on a quarterly basis.
- (d) The trustee shall oversee activities of the project manager, where applicable, with respect to compliance with this regulations and the project implementation agreement/ project management agreement and shall obtain compliance certificate from the project manager on a quarterly basis.
- (e) The trustee shall make distributions and ensure that investment manager makes timely declaration of distributions to the unit holders.
- (f) The trustee shall ensure that subscription amount is kept in a separate bank account with IFSC banking unit in name of the Investment Trust and is only utilized for adjustment against allotment of units or refund of money to the applicants till the time such units are listed.
- (g) The trustee shall ensure that the remuneration of the valuer is not linked to or based on the value of the asset being valued.
- (h) The trustee shall ensure that the investment manager convenes meetings of the unit holders and oversee the voting by unitholders and declare outcome of the voting.
- (i) In case of any change in investment manager due to removal or otherwise,-
  - (i) prior to such change, the trustee shall obtain approval from unit holders and approval from the Authority;  
Provided that the approval from the Authority shall not be required in respect of a Investment Trust that is privately placed whose units are not listed on any stock exchange.
  - (ii) the trustee shall appoint the new investment manager within three months from the date of termination of the earlier investment management agreement;

- (iii) the previous investment manager shall continue to act as such at the discretion of trustee till such time as new investment manager is appointed;
  - (iv) the trustee shall ensure that the new investment manager shall stand substituted as a party in all the documents to which the earlier investment manager was a party;
  - (v) the trustee shall ensure that the earlier investment manager continues to be liable for all its acts of omissions and commissions notwithstanding such termination.
- (j) In case of any change in the project manager due to removal or otherwise,–
- (i) the trustee shall appoint the new project manager within three months from the date of termination of the earlier project implementation agreement/ project management agreement;
  - (ii) the trustee may, either *suo motu* or based on the advice of the concessioning authority appoint an administrator in connection with a infrastructure project(s);
  - (iii) the previous project manager shall continue to act as such at the discretion of trustee till such time as new project manager is appointed;
  - (iv) all costs and expenses in this regard will be borne by the new project manager;
  - (v) the trustee shall ensure that the new project manager shall stand substituted as a party in all the documents to which the earlier project manager was a party;
  - (vi) the trustee shall ensure that the earlier project manager continues to be liable for all its acts of omissions and commissions for the period during which it served as the project manager, notwithstanding such termination.
- (k) In case of change in control of the project manager in a PPP project, the trustee shall ensure that written consent of the concessioning authority is obtained in terms of the concession agreement prior to such change, where applicable.
- (l) The trustee of an Investment Trust shall not invest in units of the Investment Trust in which it is designated as the trustee.

## **PART B: ROLES AND RESONSIBILITIES OF INVESTMENT MANAGER**

- (a) The investment manager shall make the investment decisions with respect to the underlying assets or projects of the Investment Trust including any further investment or divestment of the assets.
- (b) The investment manager shall oversee activities of the project manager with respect to compliance with these regulations and the project implementation agreement/ project management agreement and shall obtain compliance certificate from the project manager on a quarterly basis.

- (c) The investment manager shall ensure that the assets of Investment Trust or holdco or SPV have proper legal and marketable titles, to the extent applicable, and that all the material contracts entered into on behalf of Investment Trust or SPV are legal, valid, binding and enforceable by and on behalf of the Investment Trust or SPV.
- (d) The investment manager shall ensure that the investments made by the Investment Trust are in accordance with the investment conditions and in accordance with the investment strategy of the Investment Trust.
- (e) The investment manager, in consultation with trustee, shall appoint an auditor for a period of not more than five consecutive years:  
Provided that the auditor, not being an individual, may be reappointed for a period of another five consecutive years, subject to approval of unit-holders in the annual meeting.
- (f) The investment manager shall ensure that the assets of Investment Trust are adequately insured.
- (g) The investment manager shall ensure that it has adequate infrastructure and sufficient key personnel with adequate experience and qualification to undertake management of the Investment Trust at all times.
- (h) The investment manager and the investment banker(s) shall be responsible for all activities pertaining to issue and listing of units of the Investment Trust.
- (i) The investment manager shall be responsible for all activities pertaining to the issue of units of Investment Trust in respect of privately placed Investment Trust whose units are not listed on a stock exchange.
- (j) The investment manager and the investment bankers(s), shall ensure that disclosures made in the offer document or placement memorandum contains material, true, correct and adequate disclosures and are in accordance with the requirements prescribed by Authority or the stock exchange(s), in respect of Investment Trust listed on a stock exchange.
- (k) The investment manager shall ensure that disclosures made in the placement memorandum contains material, true, correct and adequate disclosures and are in accordance with the requirements prescribed by Authority in respect of privately placed Investment Trust whose units are not listed on a stock exchange.
- (l) The investment manager shall declare distributions to the unit holders in accordance with the distribution policy as provided in these regulations.
- (m) The Investment manager shall ensure that adequate controls are in place to ensure segregation of its activity as manager of the Investment Trust from its other activities.

- (n) The investment manager shall submit to the trustee, -
  - (i) quarterly reports on the activities of the Investment Trust;
  - (ii) valuation reports within fifteen days of the receipt of the valuation report from the valuer;
- (o) The investment manager shall ensure that the audit of accounts of the Investment Trust by the auditor is done not less than once in a year and such report is:
  - (i) submitted to the stock exchange(s) within sixty days of end of such financial year ending March 31st, in respect of Investment Trust listed on a stock exchange; or
  - (ii) submitted to the trustee and unitholders, either electronically or through physical copies, in respect of privately placed Investment Trust whose units are not listed on a stock exchange.
- (p) The investment manager may appoint a custodian in order to provide such custodial services as may be authorised by the trustees.
- (q) The investment manager shall place, before its board of directors in the case of a company or the governing board in case of an LLP, a report on activity and performance of the Investment Trust every three months.

#### **PART C: ROLES AND RESONSIBILITIES OF PROJECT MANAGER**

- (a) The project manager shall undertake operations and management of the InvIT assets including making arrangements for the appropriate maintenance, as may be applicable, either directly or through the appointment and supervision of appropriate agents and as required under any project agreement including a concession agreement in the case of a PPP project.
- (b) If the InvIT invests in under construction projects, the project manager shall,—
  - (i) undertake the operations and management of the projects, either directly or through appropriate agents;
  - (ii) oversee the progress of development, approval status and other aspects of the project upto its completion, in case of appointment of agents for the purpose of execution.
- (c) The project manager shall discharge all obligations in respect of achieving timely completion of the project implementation agreement/ infrastructure project, wherever applicable, implementation, operation, maintenance and management of such infrastructure project in terms of the project management agreement.

## **PART D: ROLES AND RESONSIBILITIES OF SPONSOR**

- (a) The sponsor(s) and sponsor group(s) shall set up the Investment Trust and appoint the trustee(s) of the Investment Trust.
- (b) The sponsor(s) and sponsor group(s) shall transfer or undertake to transfer to the Investment Trust, its entire shareholding or interest and rights in the holdco and/ or SPV or ownership of the real estate assets or infrastructure projects, as the case may be, subject to a binding agreement and adequate disclosures in the offer document or placement memorandum, prior to allotment of units of the Investment Trust:

Provided that this shall not apply to the extent of any mandatory holding of shares or interest and rights in the holdco and/ or SPV by the sponsor(s) and sponsor group(s) as per any Act or regulations or circulars or guidelines of government or any regulatory authority or concession agreement.

- (c) With respect to holding of units in the Investment Trust,
  - (i) the sponsor(s) and sponsor group(s) together shall hold not less than twenty percent of the total units of the Investment Trust after initial offer of units, on a post-issue basis for a period of not less than 3 years from the date of the listing of such units
  - (ii) Any holding by sponsor in Investment Trust, exceeding twenty percent on a post issue basis, shall be held for a period of not less than one year from the date of listing of such units.
- (d) Sponsor(s) would be responsible for all acts, omissions and representations/ covenants of the Investment Trust related to formation of Investment Trust, sale/ transfer of assets/holdco/SPV to the Investment Trust.
- (e) In case of PPP projects where the InvIT is investing in infrastructure assets through SPV(s), in case such acquiring or holding is disallowed by government or under any provisions of the concession agreement or any other such agreement,—
  - (i) the sponsor may continue to maintain such holding at the SPV level;
  - (ii) the consolidated value of all such holdings at the SPV level and the value of the units of InvIT held by the sponsor shall not be less than the value of fifteen percent of the total units of the InvIT after initial issue of units on a post-issue basis;
  - (iii) such units of the InvIT and shares or interest in the SPV shall be held for a period of not less than three years from the date of the listing of units of the InvIT;
  - (iv) in case such holding of sponsor in the SPV results in the InvIT not having controlling interest and not having more than fifty one percent shareholding or interest in the SPV, the sponsor shall enter into a binding agreement with the InvIT

to ensure that decisions taken by the sponsor including voting with respect to the SPV are in compliance with the requirements in this circular and not against the interest of the InvITs or the unit holders and shall be subject to further guidelines as may be specified by the Authority.

#### **PART E: ROLES AND RESONSIBILITIES OF VALUER**

- (a) The valuer(s) shall ensure that the valuation of the Business assets is impartial, true and fair and is in accordance with these regulations.
- (b) The valuer(s) shall ensure that it has sufficient and adequate financial, human and other resources to enable it to perform valuations.
- (c) The valuer(s) and any of its employees involved in valuing of the assets of the Investment Trust, shall not,-
  - (i) invest in units of the Investment Trust or in the assets being valued; and
  - (ii) sell the assets or units of Investment Trust held prior to being appointed as the valuer, till the time such person is designated as valuer of such Investment Trust and not less than six months after ceasing to be valuer of the Investment Trust.
- (d) The valuer(s) shall conduct the valuation of the Investment Trust assets with transparency and fairness and shall render, at all times, high standards of service, exercise due diligence, ensure proper care and exercise independent professional judgment.
- (e) The valuer(s) shall act with independence, objectivity and impartiality in performing the valuation.
- (f) The valuer(s) shall not accept remuneration, in any form, for performing a valuation of the Investment Trust assets from any person other than the Investment Trust or its authorized representative.
- (g) The valuer(s) shall before accepting any assignment, from any related party to the Investment Trust, shall disclose to the Investment Trust any direct or indirect consideration which the valuer may have in respect of such assignment.

#### **PART F: ROLES AND RESONSIBILITIES OF AUDITOR**

- (a) The auditor shall conduct audit of the accounts of the Investment Trust and prepare the audit report based on the accounts examined by him and after taking into account the relevant accounting and auditing standards.

- (b) The auditor shall, to the best of his information and knowledge, ensure that the accounts and financial statements, including profit or loss and cash flow for the period and such other matters as may be specified, give a true and fair view of the state of the affairs.
- (c) The auditor shall have a right of access at all times to the books of accounts and vouchers pertaining to activities of the Investment Trust.
- (d) The auditor shall have a right to require such information and explanation pertaining to activities of the Investment Trust as he may consider necessary for the performance of his duties as auditor from the employees of Investment Trust or parties to the Investment Trust or holdco or SPV or any other person in possession of such information.

**FIFTH SCHEDULE**  
**ADVERTISEMENT CODE**

- (a) Advertisements shall be accurate, true, fair, clear, complete, unambiguous and concise.
- (b) Advertisements shall not contain statements which are false, misleading, biased or deceptive, based on assumption/projections and shall not contain any testimonials or any ranking based on any criteria.
- (c) Advertisements shall not be so designed as likely to be misunderstood or likely to disguise the significance of any statement. Advertisements shall not contain statements which directly or by implication or by omission may mislead the investor.
- (d) Advertisements shall not carry any slogan that is exaggerated or unwarranted or slogan that is inconsistent with or unrelated to the nature and risk and return profile of the product.
- (e) Advertisements shall not be so framed as to exploit the lack of experience or knowledge of the investors. Extensive use of technical or legal terminology or complex language and the inclusion of excessive details which may detract the investors should be avoided.
- (g) Advertisements shall contain information which is timely and consistent with the disclosures made in the Scheme Documents.

## **SIXTH SCHEDULE**

### **INVESTMENT VALUATION NORMS - PRINCIPLES OF FAIR VALUATION**

A FME shall value its investments in accordance with the following overarching principles so as to ensure fair treatment to all investors including existing investors as well as investors seeking to invest:

(a) The valuation of investments shall be based on the principles of fair valuation i.e, valuation shall be reflective of the realizable value of the securities/financial product/assets. The valuation shall be done in good faith and in true and fair manner through appropriate valuation policies and procedures.

(b) The policies and procedures shall identify the methodologies that will be used for valuing each type of securities/financial products/assets held by the schemes. Investment in new type of securities/financial products/assets by the scheme shall be made only after establishment of the valuation methodologies for such securities/ financial products/assets.

(c) The assets held by the FME shall be consistently valued according to the policies and procedures. The policies and procedures shall describe the process to deal with events where market quotations are no longer reliable for a particular asset.

(d) The FME shall provide for the periodic review of the valuation policies and procedures to ensure the appropriateness and accuracy of the methodologies used and its effective implementation in valuing the securities/financial products/assets.

(e) The valuation policies and procedures approved by the FME should seek to address conflict of interest.

(f) Disclosure of the valuation policy and procedures (with regard to valuation of each category of securities/financial product/assets where the scheme will invest, situation where these methods will be used, process and methodology and impact of implementation of these methods, if any) shall be made in offer/placement document and on the website of the FME to ensure transparency of valuation norms to be adopted by FME.

(g) The responsibility of true and fairness of valuation and correct NAV shall be of the FME, irrespective of disclosure of the approved valuation policies and procedures i.e. if the established policies and procedures of valuation do not result in fair/ appropriate valuation, the FME shall deviate from the established policies and procedures in order to value the assets/ financial products / securities at fair value:

Provided that any deviation from the disclosed valuation policy and procedures may be allowed with appropriate disclosures to investors.