



**INDIA JURIS**  
International Law Firm

# Fund Strategies in GIFT CITY

## Set up and Operational Aspects

# Types of Funds (Strategies)



<b>CAT-1</b> Venture Capital Scheme	invests primarily in unlisted securities of start-ups, emerging or early-stage venture capital undertakings. Raising from Accredited Investors or investors investing above USD 250,000, having less than 50 investors.
<b>CAT-2 &amp; 3</b> Restricted Scheme (Non-Retail)	means a scheme offered to Accredited Investors or investors investing above USD 1,50,000 and having less than 1000 investors
Retail Scheme	a scheme offered to all investors, no ceiling as to number of investors; with min 20 investors. Investment strategies includes investment in Social Ventures, Infrastructure, ESG sectors, specific sectors, 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.)

# Permissible Investments (Strategies)



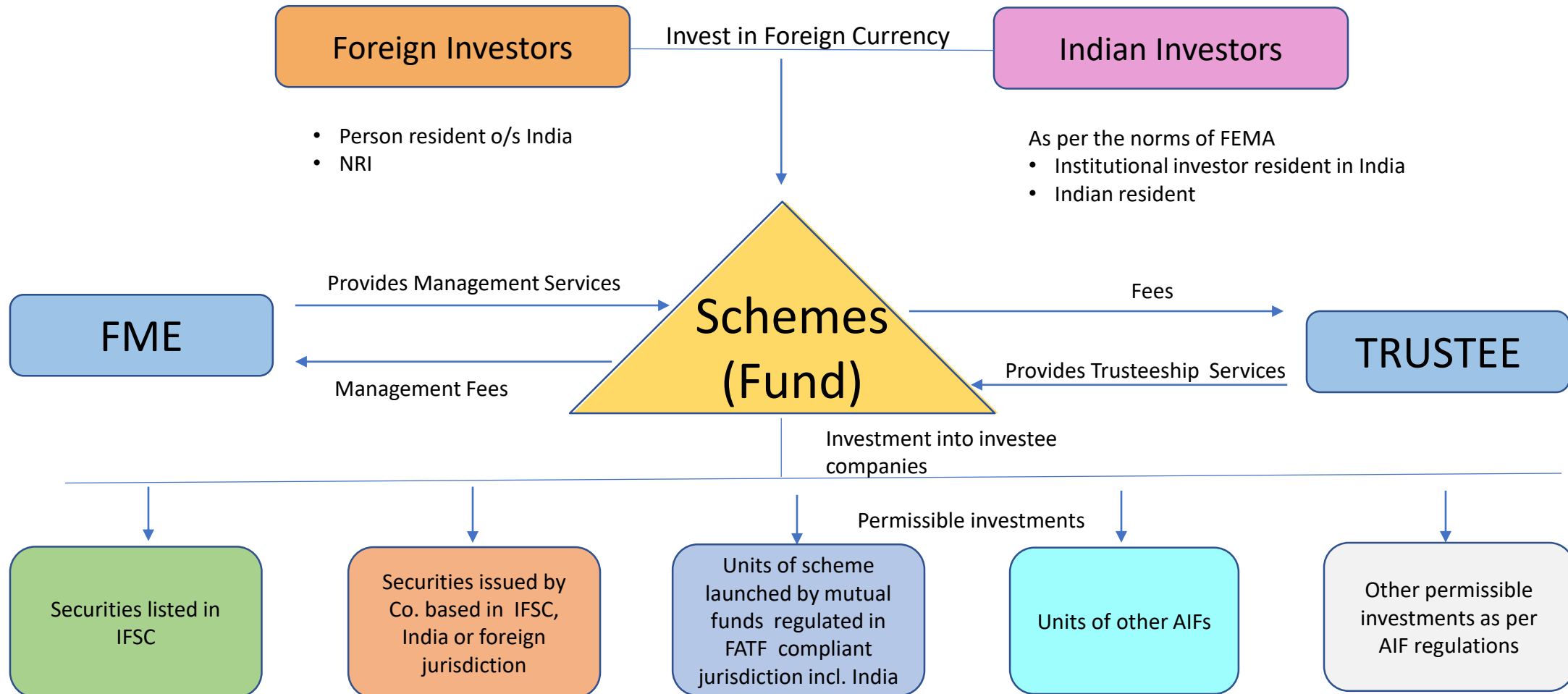
## **Permissible investments by all schemes**

- (a) Securities issued by unlisted entities;
- (b) Securities listed or to be listed or traded on stock exchanges in IFSC, India or foreign jurisdiction;
- (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 disclosure in the PPM;
- (g) Units of mutual funds & AIFs in India, foreign jurisdiction or IFSC;
- (h) Investment in LLP (not permitted for retail schemes); or
- (i) Such other securities or financial products/ assets or instruments as specified by the Authority

## **Additional conditions**

- Restricted/Retail Schemes may invest in derivatives including commodity derivatives subject to disclosures in PPM;
- Close ended restricted scheme may invest up to 20% of corpus in other physical assets as may be specified.
- Retail schemes not permitted to invest in the units of mutual funds and AIFs in IFSC.

# Legal Structure of Scheme in IFSC



## PPM

Private Placement Memorandum - detailed document of Fund related to objectives of Fund, legal, regulatory and tax considerations, history of FME and associates and helps investor in decision making.

## Trust Deed

Depends upon the nature of Fund set-up. It would be LLP agreement or MOA/AOA in case fund is set up as LLP or company

# FUND

## Contribution Agreement

Detailing the information about investment in Fund. Signed between Fund, FME and investor(s).

## Investment

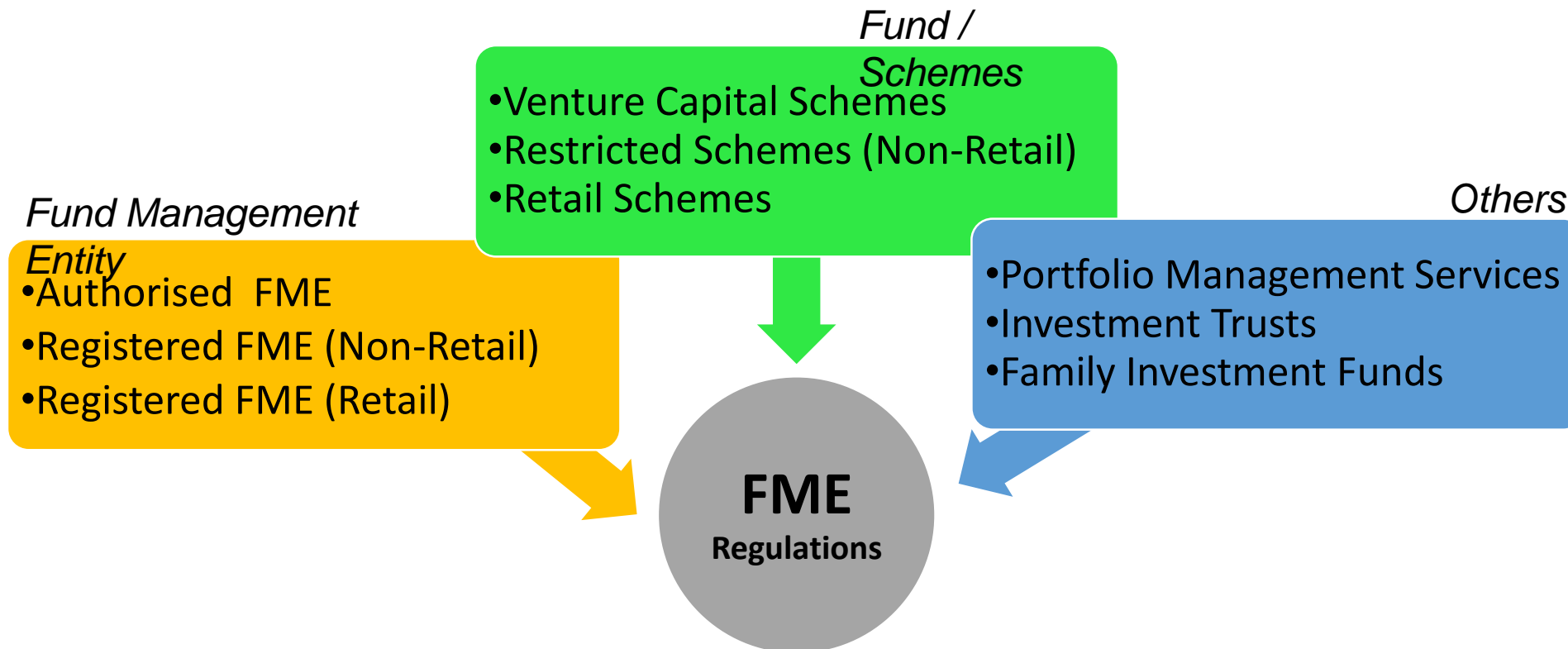
## Management Agreement

Detailing of activities for managing the investment. Signed between FME and Trust through Trustee.

# Snapshot of FME regulations



IFSCA (Fund Management) Regulations, 2022 were notified in April 2022 to provide regulatory framework for Asset Managers and Funds



# Categories of FME in IFSC (1/2)



<b>Authorised FME</b> Reg.3(a) & Reg.20	<ul style="list-style-type: none"><li>• Invest in start-up or early-stage ventures through Venture Capital Scheme</li><li>• Raises money from accredited investors or investors investing above \$250,000</li><li>• Family Investment Funds</li><li>• <b>Minimum net worth: \$ 75,000 (Sch.2)</b></li></ul>
<b>Registered FME (Non Retail)</b> Reg.3(b) & Reg.32	<ul style="list-style-type: none"><li>• Raises money from accredited investors or investors making capital commitment above \$150,000</li><li>• Portfolio Management services, Multi Family Offices, Investment Manager for private placement of REITs and InvITs</li><li>• <b>Minimum net worth: \$500,000 {\$ ½ million) (Sch.2)</b></li><li>• Allowed to undertake all activities of Authorised FMEs</li></ul>
<b>Registered FME (Retail) Reg.3(c)</b>	<ul style="list-style-type: none"><li>• Raises money from all investors or including retail investors</li><li>• Public offer of Investment Trusts (REITs and InvITs), Launch of ETFs</li><li>• <b>Minimum net worth: \$ 1,000,000 {\$ 1 million) (Sch.2)</b></li><li>• Allowed to undertake all activities of Authorised FMEs and Registered FME (Non retail)</li></ul>

# Categories of Schemes/Funds (2/2)



<b>Venture Capital Scheme</b> Reg.(18-29)	<ul style="list-style-type: none"><li>• Launched by FMEs –invest primarily in start-ups, early stage VC undertakings involved in new products, services, technology etc. includes Angel Fund</li><li>• Offered only on a private placement basis (including accredited investors) and shall have less than <b>50 investors</b></li><li>• ‘Green channel’ for subscription by investors</li></ul>
<b>Restricted Scheme (Non-Retail)</b> Reg.(30-41)	<ul style="list-style-type: none"><li>• Offered only to relevant persons on a private placement basis (including accredited investors) and shall have less than <b>1,000 investors</b></li><li>• ‘Green channel’ if subscription is to be raised only from accredited investors</li><li>• Launched by Registered FME</li></ul>
<b>Retail Scheme</b> Reg.(42-52)	<ul style="list-style-type: none"><li>• Schemes offered to all investors including retail investors</li><li>• Schemes can be:<ul style="list-style-type: none"><li>- filed with regulator only after approval from fiduciaries;</li><li>- launched only after incorporating comments from regulator in the offer document</li></ul></li><li>• Launched by Registered FME (Retail)</li></ul>



# Key Features of FMEs (1/3)



Particulars	Authorised FME	Registered FME (Non Retail)	Registered FME (Retail)
<b>Types of schemes managed</b>	VCS offered on a private placement basis. (Reg.18)	VCS & Restricted Schemes offered on a private placement basis . (Reg.30)	All schemes offered to all investors including retail investors (Reg.42)
<b>FME Form(Reg.5)</b>	Company, LLP or branch	Company, LLP or branch	Company or its branch
<b>Min. Net worth</b>	\$ 75,000 (Sch.2)	\$ 500,000 (Sch.2)	\$ 1,000,000 (Sch.2)
<b>Type of Investors permitted and min. investment required</b>	<ul style="list-style-type: none"> <li>Accredited investors - NA</li> <li>Others- min. \$ 250,000</li> <li>employees /directors/ designated partners of FME – min \$60,000 –(Reg.20)</li> </ul>	<ul style="list-style-type: none"> <li>Accredited investors - NA</li> <li>Others - min. \$ 150,000</li> <li>employees /directors/ designated partners of FME – min \$40,000 (Reg. 32)</li> </ul>	Retail & Non Retails investors are permitted (Reg. 42)

\*VCS- Venture Capital Scheme

# Key Features of FMEs (2/3)



Particulars	Authorised FME	Registered FME (Non Retail)	Registered FME (Retail)
<b>Min. Employees</b> (Reg.7)	<b>1 (PO)</b>	<b>2 (PO + 1 KMP)</b>	<b>3 (PO + 2 KMP)</b>
<b>Min. Directors</b>	-	-	4 (50% to be independent of FME) (Reg.5(4))
<b>Launch of New Schemes</b>	Immediately upon filing of PPM with IFSCA (Reg.19)	PPM to be filed 21 working days before the scheme launch (Reg.31)	Offer document filed 21 working days before the scheme launch, Fund can be launched post accommodating IFSCA comment . (Reg.43)
<b>Min. Experience</b>	Relevant	Relevant	Exp. of min 5 yrs in managing AUM $\geq$ \$200 million with investors $\geq$ 25000; or One person in control of FME holding more than 25% shareholding/ share in profits carrying on business in financial services for a period of not less than 5 year. (Reg.6)



# Key Features of FMEs (3/3)

## Skin in the game : FME Contribution

Target Corpus (TC)	Max / Min	Authorised FME (Reg.28)	Registered FME (Non Retail) (Reg.40)	Registered FME (Retail) (Reg.52)
Less than \$30 million	Minimum	2.5% of TC	Close ended- 2.5% of TC Open ended- 5% of TC	Lower of: (a) 1% of AUM of the scheme; or (b) \$ 200,000
	Maximum	10% of TC	10% of TC	-
More than \$30 million	Minimum	\$ 750,000	Close ended- \$ 750,000 Open ended- \$ 1,500,000	Same as above
	Maximum	10% of TC	10% of TC	-

- For **Angel Scheme** min. FME contribution shall be at least **2.5% of TC or \$ 20k**, whichever is less, in each portfolio.
- Contribution requirements to be fulfilled by FME or its associates within 45 days, unless exempted and to be maintained on ongoing basis.
- The contribution requirements by the FME may be waived by investors as per regulations

# Key Features of Scheme (1/3)



Particulars	Venture Capital Scheme	Restricted Scheme (Non-Retail)	Retail Scheme
<b>Legal structure</b> Reg.5	Company, LLP or Trust	Company, LLP or Trust	Company / Trust
<b>Type of Scheme</b>	Close ended (Reg.21)	Close ended & Open ended (Reg.30)	Open ended & Close ended (Reg.45)
<b>Corpus</b>	Min-\$5 million (\$1 million - AF) Max-\$200 million (Reg.23)	Min-\$5 million Max-no limit (Reg.35)	Min.-\$5million Max-no limit (Reg.47)
<b>Max. no. of Investor</b>	<50 / scheme (Reg.20) <200 / portfolio scheme (AF*)	< 1000 / scheme (Reg.32)	No restrictions
<b>Min. no. of Investor in a scheme</b> (Reg.44)	NA	NA	20 investors, with no one investing more than 25%
<b>Min. contribution from an investor in the scheme</b>	<ul style="list-style-type: none"> <li>•Accredited investors : None</li> <li>•Others: \$ 250,000 (\$ 40k - AF)</li> <li>•For employees / Directors/ Designated Partners/ Partners of FME – \$ 60,000</li> </ul>	<ul style="list-style-type: none"> <li>•Accredited investors: None</li> <li>•Others: \$ 150,000</li> <li>•For employees / Directors/ Designated Partners/ Partners of FME – \$ 40,000</li> </ul>	Open-ended – None Close-ended - \$10,000 and none, if scheme is investing <15% in unlisted securities

\*AF- Angel Fund

# Key Features of Scheme (2/3)

Particulars	Venture Capital Scheme	Restricted Scheme (Non-Retail)	Retail Scheme
<b>Tenure</b>	<ul style="list-style-type: none"> <li>•Min. 3 yrs</li> <li>•Extension upto 2 yrs with consent of 2/3<sup>rd</sup> investor's value (Reg.21)</li> </ul>	<ul style="list-style-type: none"> <li>•Close ended- min.1yr.</li> <li>•Extension upto 2 yrs with consent of 2/3<sup>rd</sup> investor's value (Reg. 33)</li> </ul>	<ul style="list-style-type: none"> <li>•Close ended-min.3yr</li> <li>•Extension upto 2 yrs with consent of 2/3<sup>rd</sup> investor's value (Reg. 45)</li> </ul>
<b>Investment in unlisted entities</b>	No restriction	<ul style="list-style-type: none"> <li>•Open-ended : Max. 25% of the corpus</li> <li>•Close-ended schemes: No restriction (Reg.35)</li> </ul>	<ul style="list-style-type: none"> <li>•Open-ended-15% of AUM (max.)</li> <li>•Close-ended: 50% of AUM max. (Reg.47)</li> </ul>
<b>Investment in associates of FME</b>	Permissible, subject to 75% investors approval by value Reg.23(2)	Permissible, subject to 75% investors approval by value Reg.35(3)	25% of the AUM (Reg.47)
<b>Valuation frequency</b>	Yearly (Reg.26)	Close ended : Half yearly Open ended : Monthly (Reg.38)	Open ended : Daily Close ended : Weekly (Reg.51)

# Key Features of Scheme (3/3)



Particulars	Venture Capital Scheme	Restricted Scheme (Non-Retail)	Retail Scheme
<b>Leverage</b>	Permissible, subject to disclosure in the PPM and consent of 2/3rd investors by value (Reg.25)	Permissible, subject to disclosure in the PPM and consent of 2/3rd investors by value (Reg.37)	<ul style="list-style-type: none"> <li>•Not permissible except to meet temporary liquidity needs for the purpose of redemption or payment of interest or dividend to the investors</li> <li>•Maximum borrowing permissible is 20% of the AUM for a duration not exceeding 6 months (Reg.49)</li> </ul>
<b>Custodian (Reg.132)</b>	Compulsory, if AUM > \$ 70 millions	Compulsory, if AUM > \$ 70 millions	Compulsory

# Recent Circulars on FME

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## 25 Jan 2024

Accredited Investors defined - For Individuals Gross Income – US\$ 200K & Net Asset US\$ 1 Million

## 16 February 2024

Maintenance of Net Worth by FME – If the net worth of the FME falls below the specified net worth, such FME shall not–

i. launch new schemes in IFSC;

ii. onboard new clients towards any of the activities or undertake new business activities permitted under the FME Regulations;

till the time the net-worth is restored.

## 11 March 2024

Sovereign Wealth Funds (SWF) desirous of setting up FMEs and schemes in IFSC, wherein the SWF is the ultimate contributor and beneficiary: a. The requirement of appointment of an independent custodian shall not be applicable to open-ended Restricted Schemes and all other schemes with AUM above USD 70 Million respectively.

The requirement of having the office space of the FME to be dedicated, secured and accessible only by authorised person(s) of the FME is relaxed to the extent that the FME and trustee of Scheme(s) set up in the form of trust, may occupy the same office space if their services are not offered to any third-party.

# Recent Circulars on FME

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2 May 2024

Facilitating investments by NRIs and OCIs into Indian securities through Schemes / Funds in an IFSC

To facilitate increased investments by NRIs and OCIs in the Indian securities through IFSC based FPIs, the following alternative routes for increased participation by NRIs and OCIs in Indian securities through IFSC based FPIs has been allowed

**a. Alternative route 1:**

NRI/OCI/RI investors may contribute **up to 100% in the corpus of IFSC based FPIs** where such FPIs will be, inter alia, required to submit copies of PAN (or other suitable documents in the absence of the same), of all their NRI/OCI/RI individual constituents, along with their economic interests in the FPI, to the DDP. The modalities for this alternative shall be specified by SEBI



# Recent Circulars on FME

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2 May 2024

Facilitating investments by NRIs and OCIs into Indian securities through Schemes / Funds in an IFSC ..... Continue

## **b. Alternative route 2:**

NRI/OCI/RI investors may contribute up to 100% in the corpus of IFSC based FPIs without the FPI required to submit the above-mentioned documents, provided, FMEs intending to invest in Indian securities through the FPI route, by setting up Retail Schemes, Restricted Schemes and Exchange Traded Funds in an IFSC, shall comply with the following conditions:

1. The eligibility of FME for such scheme / fund shall be as specified by SEBI.
2. The FME shall independently take investment decisions without being influenced by the investors in the scheme / fund.
3. The FME shall ensure that the contribution of all investors in such scheme / fund shall be accepted into a single pool without any segregated portfolios, wherein all investors shall have pari-passu and pro-rata rights in such scheme / fund. Accordingly, such scheme / fund shall also be restricted from co-investments;

# Setting up Process in GIFT City, IFSC



From October 01, 2024, IFSCA has launched Single Window IT System for registration and approval from IFSCA. All the applicants who wish to register FME in GIFT IFSC shall submit/file their applications exclusively through SWITS for seeking the following: -

STEPS	PARTICULAR	AUTHORITY
01	Identification of Office Space in GIFT for Provisional Letter of Allotment (PLOA) for office space	GIFT-IFSC/ GIFT SEZ / Developer
02	Application for the Name availability for the proposed IFSC unit. (if GIC is being formed as Company of LLP), subsequently incorporate the same.	Ministry of Corporate Affairs
03	Application to the office of Development commissioner for SEZ approval.	K'ASEZ (DC)
04	Application for GST Number	CBIC
05	Application to IFSC Authority for registration in IFSC	IFSCA
06	Opening of Bank Account with IFSC Banking units	IFSC Bank

**Note:** The application to the Office of Development Commissioner (D.C.) for SEZ approval and application to IFSCA for registration in IFSC under GIC regulations may be done simultaneously.

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# Fund Strategies in GIFT CITY

## Set up and Operational Aspects

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