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SETTING UP FUNDS IN GIFT CITY

Legal & Compliance

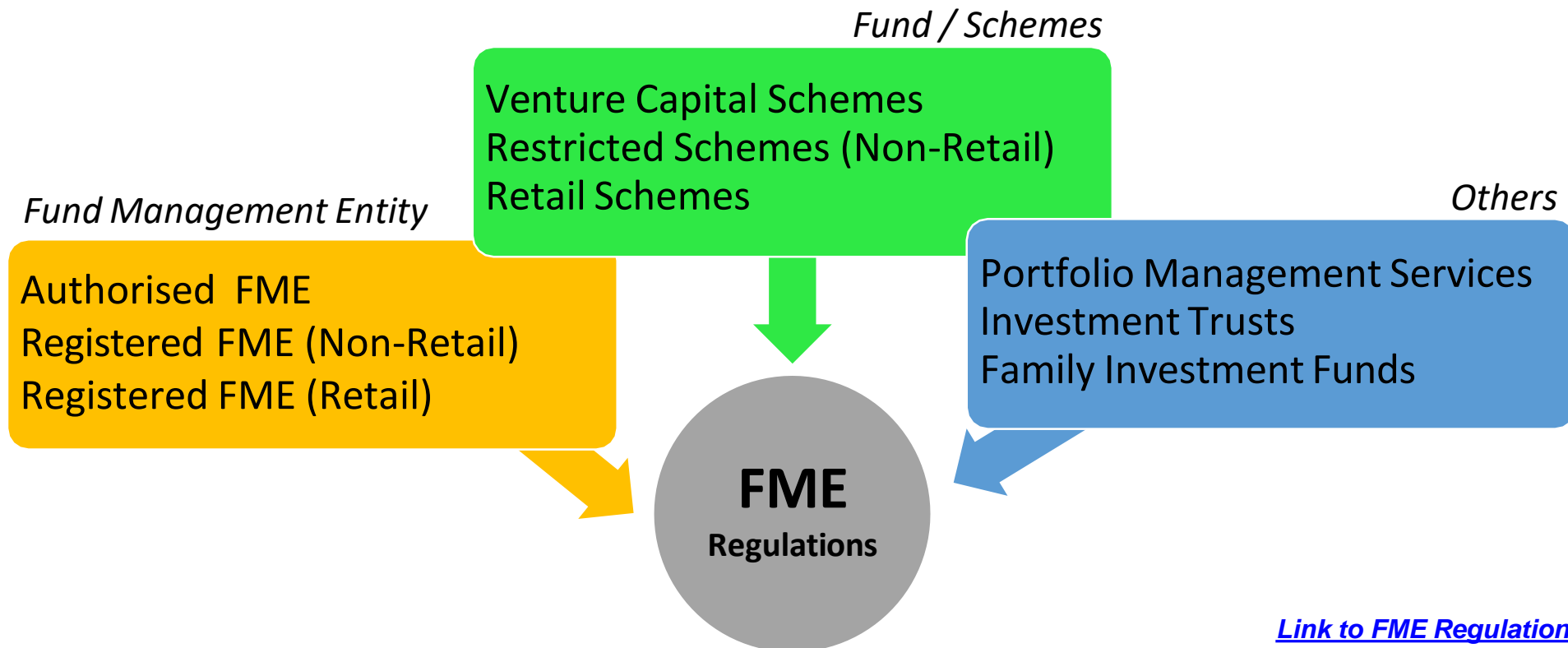
29 May 2025 | Webinar

Snapshot of FME Regulations



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IFSCA (Fund Management) Regulations, 2022 were notified in April 2022 to provide regulatory framework for Asset Managers and Funds and updated FM Regs were released in February 2025



[Link to FME Regulations \(IFSCA\)](#)

Types of Funds



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CAT-1 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.
CAT-2 & CAT-3 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



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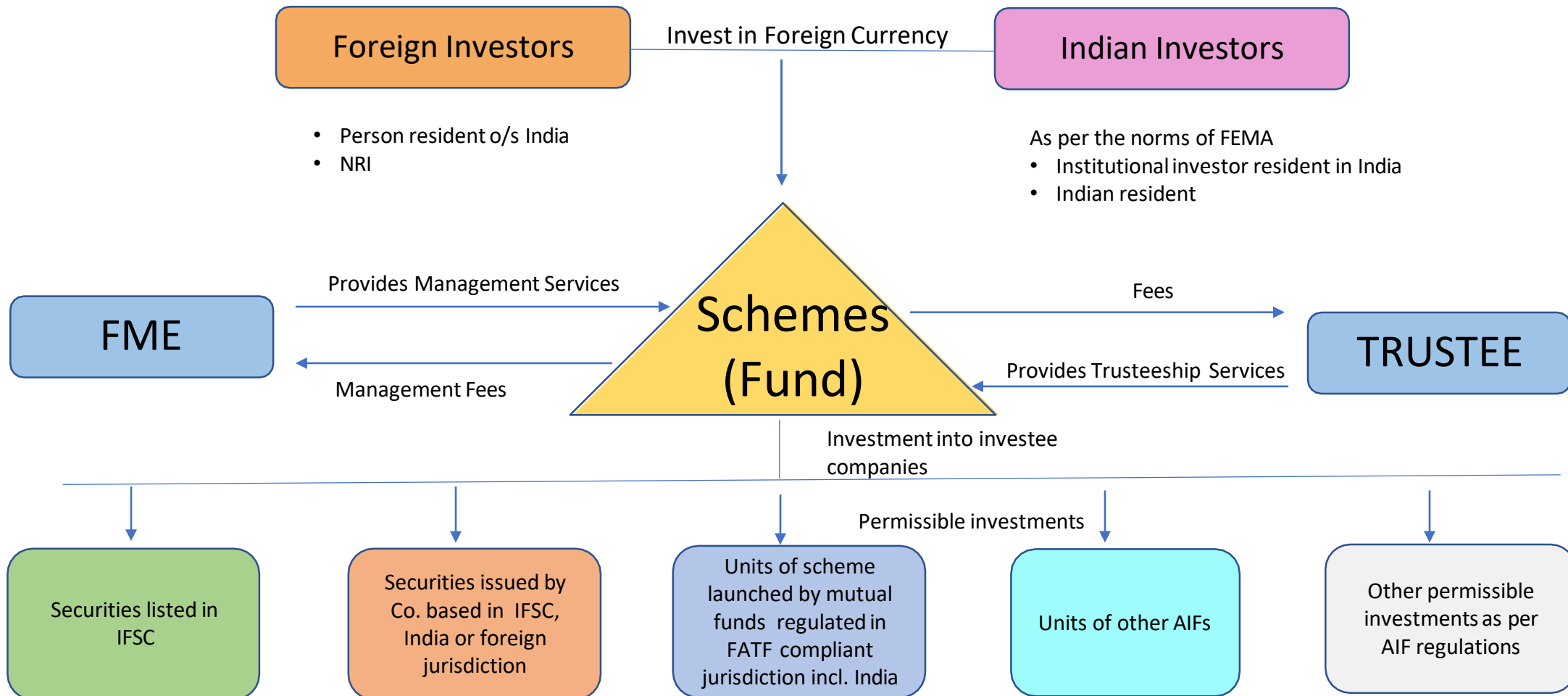
Permissible investments by all schemes

- (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



Fund Documentation

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.

Categories of FME in IFSC (1/2)



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

Categories of Schemes/Funds (2/2)

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

Key Features of FMEs (1/3)

Particulars	Authorised FME	Registered FME (Non Retail)	Registered FME (Retail)
Types of schemes managed	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)
FME Form(Reg.5)	Company, LLP or branch	Company, LLP or branch	Company or its branch
Min. Net worth	\$ 75,000 (Sch.2)	\$ 500,000 (Sch.2)	\$ 1,000,000 (Sch.2)
Type of Investors permitted and min. investment required	<ul style="list-style-type: none"> Accredited investors - NA Others- min. \$ 250,000 employees /directors/ designated partners of FME – min \$60,000 –(Reg.20) 	<ul style="list-style-type: none"> Accredited investors - NA Others - min. \$ 150,000 employees /directors/ designated partners of FME – min \$40,000 (Reg. 32) 	Retail & Non Retails investors are permitted (Reg. 42)

Key Features of FMEs (2/3)

Particulars	Authorised FME	Registered FME (Non Retail)	Registered FME (Retail)
Min. Employees (Reg.7)	1 Principal Officer (PO)	2 (PO + 1 KMP as Compliance Officer)	3 (PO + 2 KMP)
Min. Directors	-	-	4 (50% to be independent of FME) (Reg.5(4))
Launch of New Schemes	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)
Min. Experience	For Principal Officer: Minimum experience of 5 years in the relevant field	For Compliance Officer: Minimum experience of 3 years in the relevant field	FME that is managing an AUM of at least USD 1 billion in addition to the principal officer and compliance officer, shall appoint an additional KMP, who shall be assigned with the responsibility of fund management with relevant experience.

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
Legal structure Reg.5	Company, LLP or Trust	Company, LLP or Trust	Company / Trust
Type of Scheme	Close ended (Reg.21)	Close ended & Open ended (Reg.30)	Open ended & Close ended (Reg.45)
Corpus	Min-\$3 million (\$1 million - AF) Max-\$200 million (Reg.23) Raise minimum corpus within 12 months of PPM approval	Min-\$3 million Max-no limit (Reg.35) Raise minimum corpus within 12 months of PPM approval	Min.-\$3 million Max-no limit (Reg.47) Raise minimum corpus within 12 months of PPM approval
Max. no. of Investor	<50 / scheme (Reg.20) <200 / portfolio scheme (AF*)	< 1000 / scheme (Reg.32)	No restrictions
Min. no. of Investor in a scheme (Reg.44)	NA	NA	20 investors, with no one investing more than 25%
Min. contribution from an investor in the scheme	<ul style="list-style-type: none"> •Accredited investors : None •Others: \$ 250,000 (\$ 40k - AF) •For employees / Directors/ Designated Partners/ Partners of FME – \$ 60,000 	<ul style="list-style-type: none"> •Accredited investors: None •Others: \$ 150,000 •For employees / Directors/ Designated Partners/ Partners of FME – \$ 40,000 	Open-ended – None Close-ended - \$10,000 and none, if scheme is investing <15% in unlisted securities

Key Features of Scheme (2/3)

Particulars	Venture Capital Scheme	Restricted Scheme (Non-Retail)	Retail Scheme
Tenure	<ul style="list-style-type: none"> • Min. 3 yrs • Extension upto 2 yrs with consent of 2/3rd investor's value (Reg.21) 	<ul style="list-style-type: none"> • Close ended- min.1yr. • Extension upto 2 yrs with consent of 2/3rd investor's value (Reg. 33) 	<ul style="list-style-type: none"> • Close ended-min.3yr • Extension upto 2 yrs with consent of 2/3rd investor's value (Reg. 45)
Investment in unlisted Entities	No restriction	<ul style="list-style-type: none"> • Open-ended : Max. 25% of the corpus • Close-ended schemes: No restriction (Reg.35) 	<ul style="list-style-type: none"> • Open-ended-15% of AUM (max.) • Close-ended: 50% of AUM max. (Reg.47)
Investment in associates of FME	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)
Valuation frequency	Yearly (Reg.26 read with 24)	Close ended : Half yearly Open ended : Monthly (Reg.38 read with 36)	Open ended : Daily Close ended : Weekly (Reg.51)

Key Features of Scheme (3/3)

Particulars	Venture Capital Scheme	Restricted Scheme (Non-Retail)	Retail Scheme
Leverage	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"> • Not permissible except to meet temporary liquidity needs for the purpose of redemption or payment of interest or dividend to the investors • Maximum borrowing permissible is 20% of the AUM for a duration not exceeding 6 months (Reg.49)
Custodian (Reg.132)	Compulsory, if AUM > \$ 70 millions	Compulsory, if AUM > \$ 70 millions	Compulsory

Recent Circulars on FME

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

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

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;

[Link to IFSCA circulars](#)

Recent Circulars on FME

February 20, 2025

Appointment and **Change of Key Managerial Personnel** by a Fund Management Entity

- The IFSCA has specified the procedure to be followed by the FME for effecting the appointment of or change to the KMPs subsequent to the grant of registration by the IFSCA to the FME.
- The FME is required to ***file an intimation to the IFSCA regarding the proposal to appoint or change a KMP*** in the prescribed format as provided in Annexure, along with the payment of the applicable fee.
- Comments of the IFSCA, if any, shall be communicated within seven (7) working days from the date of filing of the intimation.
- The FME and person(s) in control of the FME shall hold the responsibility of ensuring adherence to the eligibility criteria for the KMPs as specified by IFSCA.
- In any case, a KMP position shall not remain vacant for a period more than six (6) months from the date such vacancy arises, i.e., the next candidate for a vacant KMP position must join the FME in IFSC latest within six (6) months from the date of relieving of the previous candidate.

[Link to IFSCA circulars](#)

Recent Circulars on FME

April 3, 2025

Revision in **reporting formats for Fund Management** Entities in IFSC

- A review of the reporting formats has been carried out, particularly with the view to seek salient details of Retail Schemes, capture granular information in certain areas for supervisory purpose, provide greater clarity to the FMEs by restructuring some of the tables, include guidance notes where deemed necessary, and to align the formats with the recently notified IFSCA (Fund Management) Regulations, 2025.
- In order to facilitate the access to the latest reporting formats, these have also been uploaded on the IFSCA website under the “Downloads” section (<https://ifsc.gov.in/Downloadfile/Index>). Therefore, FMEs are advised to access the reporting formats from the above link to ensure filings in the updated formats.

[Link to IFSCA circulars](#)

Recent Circulars on FME

April 8, 2025

Transition to IFSCA (Fund Management) Regulations, 2025

- The IFSCA (Fund Management) Regulations, 2025 (“FM Regulations, 2025”), have been published in the official gazette on February 19, 2025, repealing the IFSCA (Fund Management) Regulations, 2022 (“FM Regulations, 2022”).
- Under the FM Regulations, 2025, the **validity period of the private placement memorandum (PPM) for Venture Capital Schemes and Restricted Schemes is 12 (twelve) months** as against 6 (six) months specified under FM Regulations, 2022. Additionally, under FM Regulations, 2025, the minimum corpus requirement for various schemes, including Venture Capital Schemes and Restricted Schemes, is reduced to USD 3 million as against USD 5 million specified under the FM Regulations, 2022.
- A one-time opportunity is being offered to the Fund Management Entities (“FMEs”), to seek an extension of the PPM of Venture Capital Schemes and Restricted Schemes whose validity has expired before February 19, 2025, with certain terms and conditions.

[Link to IFSCA circulars](#)

Recent Circulars on FME

24 May 2025

Extension of timeline for appointment of Custodian under Regulation 132 of the IFSCA (FM) Regs, 2025

A transition period of twelve (12) months has been provided to appoint a custodian in IFSC, if required, in terms of Regulation 132 of FM Regulations, 2025.

4. FME(s) which have already filed scheme with the Authority or entered into agreement with Custodian not based in IFSC an additional time period of six (6) months from the date of the issuance of this Circular is granted for the appointment of an independent custodian based in IFSC.

Setting up Process in GIFT City, IFSC

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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