FUND MANAGEMENT IN GIFT IFSC

Abstract

In a revolutionary move, the IFSCA has notified a unified regime for Fund Management to significantly ease the process of doing Global fund management. With the various initiatives of IFSCA and other authorities, the GIFT IFSC is well poised to be the global nerve centre for wealth management.

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It is the India story everywhere and rightly so. It is the fastest growing major economy in the world and witnessing significant transformation at several fronts – economic policies, digital and physical infrastructure, revival of manufacturing sector and resurgence of start-up ecosystem. These and several other tailwinds have placed India on her way to become the 3rd largest economy in the near future[1].

One of the pinnacles of India's economic reform is its maiden **International Financial Services Centre (IFSC)**, which is situated in GIFT City (Gujarat International Finance Tec-City). With IFSCA at the helm, the entire regulatory landscape in GIFT IFSC has been reimagined in line with global best practices, with significant emphasis on principle-based approach and continued endeavour to offer ease of doing business to the market participants. In the last issue of this journal, the details of IFSC and IFSCA were shared.

With a view to develop GIFT - IFSC as a preferred jurisdiction for global fund management industry, IFSCA notified the IFSCA (Fund Management) Regulations in April 2022, which came into effect in May 2022. The new Regulations, prepared through an extensive consultation process, adopt global best practices, facilitate innovation and promote ease of doing business in IFSC's fund management ecosystem.

In a short span of less than 2 years,GIFT IFSC currently houses over 100 Fund Management Entities (FMEs)[2] who have set-up more than 120 funds[3], with a collective targeted corpus of US$ 33 billion. About 15 FMEs also offer portfolio management services from IFSC. There is a healthy mix of leading fund managers from India and international jurisdictions that have set-up their operations in IFSC.

Categories of Fund Management Entities

The IFSCA (Fund Management) Regulations, 2022[4] provide for unified registration to the Fund Management Entity (FME) and permit them to undertake a host of fund management activities, such as:

- *Retail schemes (including Exchange Traded Funds),*
- *Non-retail schemes (Alternative Investment Funds),*
- *Investment trusts (Real Estate Investment Trusts*

[1] *https://www.livemint.com/market/stock-market-news/india-to-become-3rd-largest-economy-by-2027-market-cap-to-hit-10-trn-by-2030-jefferies-11708574245427.html*
[2] *https://ifsca.gov.in/Directory/index/WjAqecTyyxw=*
[3] *https://ifsca.gov.in/Directory/index/f63YeymdLdI=*
[4] *https://ifsca.gov.in/Document/Legal/ifsca-fund-management-regulations-2022-as-amended-upto-april-11-202324042023105305.pdf*

and Infrastructure Investment Trusts),
- *Portfolio Management Services etc.*

In case a FME chooses to deal only with non-retail investors, the requirements are light-touch.

Funds in GIFT IFSC

Once registered with IFSCA, a FME can launch various investment funds/ schemes based on its category of registration.Such schemes can raise funds from investors – Indian as well as International - and make investments in assets across the globe. The different types of funds enabled are:

Venture Capital Schemes: Venture Capital Schemes are schemes that can be launched by the FMEs to invest primarily in unlisted securities of start-ups. Given the focus of institutional and sophisticated investors to participate in the growth journey of start-ups, the regulations provide for a dedicated category of schemes for this purpose. Such scheme can accept contribution from up to 50 accredited investors or such investors who invest at least USD 250,000.Due to the illiquid nature of portfolio, these schemes are required to be structured as close-ended schemes.

Restricted Schemes or **Alternative Investment Funds**:Commonly known as Alternative Investment Funds (AIFs), these pool of funds from accredited investors and such investors who invest at least USD 150,000 in a wide variety of strategies. Based on their investment strategies, AIFs are classified into Categories I, II and III.

FMEs may launch AIFs for a variety of investment strategies, including but not limited to hedge funds, private equity funds, debt funds, private credit funds, stressed assets funds, sector-specific funds, thematic funds, etc.

Retail Schemes and ETFs: IFSCA also allows constitution of Retail Schemes and Exchange traded Funds, popularly known as mutual funds, to enable retail investors across the globe to invest in the Indian as well as global markets. The mutual funds can be open-ended or close-ended, providing flexibility to the structure of funds, as required by the investors. The ETFs can be index-based or commodity-based. Further, the regulations also allow for actively managed ETFs to be set up in the GIFT IFSC.

Other Fund Management Opportunities in GIFT IFSC

Beyond traditional fund management, GIFT IFSC is home to innovative financial services, including:

1. **Portfolio Management Services (PMS)**: The regulatory framework in GIFT IFSC permits FMEs to provide PMS offerings that may invest globally and also offer tailor-made investment strategies for HNIs for fulfilling specific investment objectives.These services can, depending on the needs of the client and the nature of contract, be:
   - discretionary portfolio management
   - non-discretionary portfolio management
   - pure advisory.
2. **Family Investment Funds**: The Family Investment Fund ecosystem in the IFSC offers an excellent structure for Single Family Offices to base their Investment Funds in GIFT IFSC. Such funds would manage the family's wealth across generations and provide a structured approach to activities like wealth management, estate planning, and succession planning besides regulatory and operational efficiencies.
3. **Angel Funds:** In recognition of the crucial role played by entrepreneurs and the need for a conducive angel ecosystem, a framework has been provided for setting up Angel Funds in IFSC.
4. **ESG Funds**: GIFT IFSC aspires to become a hub of sustainability related financial services. In this endeavour, sustainability related elements have been embedded in all the major regulatory framework of IFSCA. A dedicated framework for ESG Funds in GIFT IFSC is testimony to this commitment of IFSCA. The disclosure norms prescribed by IFSCA are intended to ensure that the ESG Funds are true-to-label and mitigate the risk of greenwashing. In addition to disclosure requirements for ESG Funds, the regulations provide for ESG related disclosure requirements for the FME once its Assets under Management reaches US$ 3 Billion.
5. **Investment Trusts**: The regulations provide the framework for issuance of REITs (Real Estate Investment Trusts) and InvITs (Infrastructure Investment Trusts), collectively known as investment trusts. The units of investment trusts are allowed to either be privately placed to a small number of investors or issued to public.

Fund management in GIFT IFSC- Key advantages

As the first international financial services centre of India, the GIFT IFSC offers a whole gamut of advantages to attract global finance to the Indian shores. Powered by the growth engine that is the Indian economy, GIFT IFSC is the natural choice for Indian corporations for their international financial services needs. Further, the following advantages offered by GIFT IFSC make it a compelling choice for the global financial players to explore GIFT IFSC for expanding their fund management activities:

1. **Single registration for multiple activities**: A FME intending to undertake host of fund management related activities in the GIFT IFSC may seek registration under an appropriate category from IFSCA and pursue all the activities as permitted under its category of registration without having to undergo the registration process for each activity. This significantly reduces the operational cost of the FME and provide a seamless experience.

   In order to further ease the process of doing business, IFSCA, in April 2024, issued a circular prescribing the minimum disclosures in an offer document and thereby facilitating immediate launch of the scheme. Since this does away with the need to obtain IFSCA's observations, this will significantly reduce the time taken to launch a scheme.

2. **Tax benefits and incentives**: In order to encourage investment, promote financial services and provide parity the FMEs operating within GIFT IFSC enjoy a tax regime which is at par with other international financial centres. Similarly, the Schemes set-up by the FMEs in IFSC are also accorded a competitive tax regime, thereby benefiting the net returns to the investor.

3. **Unified Regulator and Single Point of Contact**: As the unified regulator of GIFT IFSC, having the powers to regulate all financial services, whether pertaining to banking, capital markets, insurance, etc., IFSCA is the single point of contact for the FMEs. Accordingly, the regulatory compliances have been simplified and unified, thereby offering immense operational ease to all the market participants in GIFT IFSC.

4. **Easy availability of talent and lower operating costs**: Being located in India, GIFT IFSC enjoys a vast pool of talented and qualified human resources with experience across domestic as well as multinational organizations. Further, foreign universities have set up campuses in GIFT IFSC which will nurture a ready pool of qualified candidates for the market participants in GIFT IFSC. The easy availability of qualified manpower and lower cost of operations in GIFT IFSC translates into higher savings for the FMEs and economical service to the investors. The presence of world-class physical infrastructure, emerging social infrastructure and supportive ecosystem also contribute to streamlining of processes and optimum utilization of resources.

5. **Ecosystem of ancillary service providers**: The investment fund industry in GIFT IFSC is supported by the presence of the entire ecosystem of ancillary service providers, including Trusteeship firms, Custodians, Fund Administrators, Law firms, Auditors, etc., which cater to the needs of the fund managers, help in fund documentation, fund accounting and other such supporting activities.

6. **Relocation of funds**: As a testimony to the conduciveness of GIFT IFSC as a preferred jurisdiction for fund management activities, several funds have, in fact, redomiciled from other financial centres to GIFT IFSC. Further, in order to promote and support this trend, the Government of India has notified that the relocation of offshore funds to a resultant fund in GIFT IFSC shall be tax neutral for such off-shore fund, resultant fund and its unit holders.

Conclusion

As India marches towards its 2047 goal of being a developed nation[5], IFSCA is determined to develop the GIFT IFSC as a significant international center for wealth management. This determination of IFSCA will not only help investors with multiple investment opportunities at a single destination with ease and competitive cost but also facilitate the capital needs of India to further its agenda of becoming a developed nation. MA

[5] *https://www.deccanherald.com/india/explained-what-is-viksit-bharat-2047-and-what-does-it-aim-to-achieve-2920441*