

FA INDIA

GIFT CITY - IFSC  
Briefing

FUNDS  AXIS

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## GIFT CITY - Overview

GIFT IFSC (Gujarat International Financial Tech-City) is India's initiative to promote offshore financial services. Headquartered in GIFT City, Gandhinagar, Gujarat, India, the IFSC aims to provide onshore talent with an offshore regulatory and technological framework, enabling Indian firms to compete with global financial centers.

### IFSC's Key Features and Offerings

- \ Cross-border financial services in a competitive tax environment.
- \ A wide range of permissible businesses including:
  - o Alternative investment funds
  - o Fund management
  - o Insurance, banking, and capital markets
  - o Fintech
  - o Aircraft leasing and financing
  - o Ship leasing and bullion exchange
  - o Foreign universities and global in-house centres

## THE IFSCA

The IFSCA (International Financial Services Centres Authority) regulates FMEs to build a robust asset management ecosystem. Before IFSCA, IFSC activities were regulated by domestic regulators like RBI, SEBI, PFRDA, and IRDAI.

Established on April 27, 2020, under the IFSCA Act, 2019, the primary purpose of IFSCA is to act as a unified regulator for financial products, services, and institutions in India's International Financial Services Centre (IFSC). It aims to streamline inter-regulatory coordination and promote ease of doing business in IFSCs.

## FME

A Fund Management Entity (FME) is a legal entity registered with the International Financial Services Centres Authority (IFSCA) to undertake the business of fund management within an IFSC. It serves as the regulated vehicle through which various investment schemes are launched and managed. A detailed list of IFSCA regulatory requirements for FMEs can be found [here](#)

## FME – Types and Features

IFSCA categorised Fund Management Entities (FMEs) into three categories:

- \ Authorized FME – For venture capital and family investment funds.
- \ Registered FME (Non-Retail) – For private placement investments.
- \ Registered FME (Retail) – For retail and public investment schemes.

Below is the comprehensive comparison table summarizing the key differences between Authorized FME, Registered FME (Non-Retail), and Registered FME (Retail)

Criteria	Authorized FME	Registered FME (Non-Retail)	Registered FME (Retail)
Investor Type	Accredited Investors; investing > USD 250,000	Accredited Investors; investing > USD 150,000	All investors (min. 20 per scheme, max. 25% by one investor)
Target Investors	Family offices, VC funds	Institutional / HNW investors	General public / Retail investors
Max Investors per Scheme	VC Schemes: < 50	< 1000 VC Schemes: <50	≥ 20 (no single investor >25%) VC Schemes: <50
Schemes Allowed	Venture Capital Schemes, PE, family investment funds	Restricted Private Placement Schemes, Venture Capital Schemes	Public schemes, mutual funds, Venture Capital Schemes
Typical Use Case	Family wealth, early-stage VC	PE, hedge funds	Mutual funds, ETFs
Minimum Net Worth	USD 75,000	USD 500,000	USD 1,000,000
Legal Form	Company, LLP, Branch	Company, LLP, Branch	Company, Branch
Minimum KMPs	1	2	3
FME Contribution (Min)	Varies by scheme size (e.g., 2.5% or USD 750,000)	Same as Authorized FME	Lower of 1% of AUM or USD 200,000
Launch Timelines	Immediate upon filing	21-day prior filing with IFSCA	21-day prior filing with IFSCA
NAV Frequency	Annual (Venture Capital Scheme, Close-ended, 3 yrs)	Monthly (Restricted Scheme), Half-yearly (Close-ended)	Daily (Retail Scheme), Weekly (Close-ended)
Minimum Scheme Size	USD 5 million (Venture Capital)	USD 5 million	USD 5 million
Portfolio Management Services (PMS)	Not allowed	Allowed	Allowed
ETF Launch	Not allowed	Not allowed	Allowed
Investment Trust Management	Private Placement only	Private Placement only	Public Offer allowed
Track Record Requirement	Relevant employee experience	Relevant employee experience	5 years AUM ≥ USD 200M & 25K investors or 5 years in financial services
Borrowing/Leverage	Allowed (with conditions)	Allowed (with conditions)	Limited to 20% AUM for liquidity (max 6 months)
Investment Restrictions	Scheme-specific	Scheme-specific	Detailed sectoral, issuer, and unlisted limits
Custodian Requirement	If AUM > USD 70M	If AUM > USD 70M or open-ended	Mandatory
Registration Fee	USD 5,000	USD 7,500	USD 10,000
Valuation	By third party providers	By third party providers	By third party providers

## FME – Investment Opportunities

FMEs registered in GIFT City IFSC can invest in India subject to FME regulations through the following modes:

Route	Purpose / Scope
FVCI (Foreign Venture Capital Investment)	For investing in unlisted Indian companies, especially VCs
FPI (Foreign Portfolio Investor)	For investing in listed Indian securities (equity, debt)
FDI (Foreign Direct Investment)	For direct investment in Indian businesses under sectoral caps and conditions

With access to domestic and international securities, funds incorporated in GIFT IFSC are permitted to invest in the following securities (which may not be allowed to Funds operating out of India):

Investment Category	Details
Securities Listed in GIFT IFSC	Fully permitted
Securities by Companies in GIFT IFSC	Fully permitted
Securities by Indian or Foreign Companies	Permitted without restrictions applicable to domestic funds
Units of Other Funds in IFSC	Permitted
Other Permissible Investments	Includes LLPs, REITs, InvITs, Derivatives, SPVs, etc. as per Fund Regulations
Overseas Entities	Permitted without domestic fund restrictions

Other Fund Management activities include:

- \\ Portfolio Management Services (PMS) with a minimum investment of USD 150,000.
- \\ Public (registered FME retail) or private Investment Trusts (REITs & InvITs) offerings with a minimum asset value: USD 75 million and minimum offer size: USD 35 million.
- \\ Launch Equity and Debt Index ETFs
- \\ Create Family Investment Funds structured as Company, LLP, or Trust with a minimum corpus: USD 10 million within 3 years.

## Schemes – Types and Features

FMEs are allowed to operate in the below Schemes subject to various eligible conditions:

- \\ Venture Capital Schemes
- \\ Restricted Schemes (schemes for non-retail Funds)
- \\ Retail Schemes
- \\ Special Situation Funds
- \\ Exchange Traded Funds (ETFs)
- \\ Environmental, Social, and Governance (ESG)

An FME is permitted to operate both **Venture Capital Schemes** and **Restricted Schemes** concurrently, provided it adheres to the applicable regulatory and filing requirements. This flexibility enables FMEs to broaden their fund management scope and serve a diverse range of investor needs.

Salient Features of **Venture Capital Scheme**:

Category	Details
Eligible FMEs	Authorized FME, Registered FME (Non-Retail), Registered FME (Retail)
Legal Structure	Company, LLP, Trust

Scheme Type	Category I, II, or III AIF depending on strategy
Investor Eligibility	Accredited Investors or those investing above USD 250,000
Minimum Scheme Size	USD 5 million
Maximum Investors	Less than 50 per scheme
FME Contribution	2.5% of corpus or USD 750,000 (whichever is lower); exemption if 2/3 investors are Accredited
NAV Disclosure Frequency	Annual
Custodian Requirement	Mandatory if AUM > USD 70 million
Borrowing/Leverage	Permitted with investor disclosure and consent
Track Record Requirement	Relevant employee experience
Registration Fee	USD 5,000 (Authorized FME)
Special Scheme (SPV) Co-Investment	Allowed with Restricted Schemes
SPV Structure	Company, LLP, or Trust
SPV Investment Scope	Single portfolio company
SPV Leverage	Allowed as per placement memorandum
SPV Control	FME retains full control; investors cannot interfere
SPV Reporting	Consolidated with parent scheme
Term Sheet Filing	Within 45 days of investment
SEZ Approval	Required before term sheet submission
Investor KYC	Required for new investors; existing investors exempt if already verified
Disclosure Requirements	Portfolio company details, investment amount, leverage terms, SEZ approval, FME declaration

Permissible Investments by FMEs in **Restricted Schemes** include:

Investment Type	Details
Unlisted Securities	Securities issued by unlisted entities
Listed Securities	Securities listed, to be listed, or traded on stock exchanges in IFSC, India, or foreign jurisdictions
Money Market Instruments	Includes treasury bills, commercial papers, certificates of deposit, etc.
Debt Securities	Bonds, debentures, and other fixed-income instruments
Securitized Debt Instruments	Asset-backed or mortgage-backed securities
Other Investment Schemes	Schemes set up in IFSC, India, or foreign jurisdictions (subject to disclosure in placement memorandum)
Derivatives	Including commodity derivatives, subject to suitable disclosures
Units of Mutual Funds & AIFs	In India, IFSC, or foreign jurisdictions
Limited Liability Partnerships (LLPs)	Direct investment in LLPs
Other Financial Instruments	As specified by the Authority
Temporary Investments (Pending Deployment)	Certificate of deposits, liquid/money market schemes, money market instruments, or other specified securities/assets
Physical Assets (Closed-ended only)	Up to 20% of corpus in real estate, bullion, art, or other physical assets (only for closed-ended schemes)

Comparison of features of **Restricted Open-Ended Scheme vs Closed Ended Schemes**:

Feature	Restricted Open-ended Scheme	Restricted Closed-ended Scheme
Eligible FME	Registered FME (Non-Retail)	Registered FME (Non-Retail)
Investor Eligibility	Accredited Investors or those investing $\geq$ USD 150,000	Accredited Investors or those investing $\geq$ USD 150,000

Legal Structure of Scheme	Company, LLP, or Trust	Company, LLP, or Trust
Maximum Number of Investors	≤ 1000	≤ 1000
Minimum Corpus	USD 3 million (USD 1M to start investments; full corpus within 12 months)	USD 3 million
FME Contribution	2.5% of corpus or USD 750,000 (whichever is lower); exemption if 2/3 investors are Accredited	Same as open-ended
NAV Disclosure Frequency	Monthly	Half-yearly
Custodian Requirement	Mandatory for open-ended schemes or AUM > USD 70M	Mandatory if AUM > USD 70M
Borrowing/Leverage	Permitted with disclosure and investor consent	Permitted with disclosure and investor consent
Investor Exit	Anytime, subject to redemption terms	Only at maturity or as per placement memorandum
Permitted Activities	PMS, Private Placement of Investment Trusts, Co-investment via SPV	Same as open-ended
KMP Requirement	Minimum 2 (Principal Officer + Compliance/Risk Officer)	Same as open-ended
Track Record Requirement	Relevant experience in fund management or financial services	Same as open-ended
Placement Memorandum	Required	Same as open-ended
Reporting to IFSCA	Periodic	Same as open-ended
Registration Fee (FME)	USD 7,500	Same as open-ended

A Registered FME (**Retail**) is authorized to launch **Mutual Funds** and **Exchange Traded Funds** targeting retail investors. To do so, it must comply with detailed regulatory and compliance frameworks specific to retail fund management, including requirements for disclosures, investor protection, and asset allocation. These obligations are notably more stringent than those applicable to FMEs serving accredited or high-net-worth individuals

Permissible Investments by FMEs in **Retail Schemes** include:

Investment Type	Details
Listed Securities	Securities listed, to be listed, or traded on stock exchanges in IFSC, India, or foreign jurisdictions
Unlisted Securities	Securities issued by unlisted entities
Money Market Instruments	Treasury bills, commercial papers, certificates of deposit, etc.
Debt Securities	Bonds, debentures, and other fixed-income instruments
Securitized Debt Instruments	Asset-backed or mortgage-backed securities
Other Investment Schemes	Schemes set up in IFSC, India, or foreign jurisdictions (with appropriate disclosure in offer documents)
Derivatives	Including commodity derivatives only for hedging purposes, subject to suitable disclosures
Units of Mutual Funds & AIFs	In India, IFSC, or foreign jurisdictions
Other Financial Instruments	As specified by the Authority
Temporary Investments (Pending Deployment)	Certificate of deposits, liquid/money market schemes, money market instruments, or other specified securities/assets

## Investment Concentration Limits

Below is a summary of the **investment concentration limits** applicable to **Retail Schemes** and **Restricted Schemes** under the IFSCA Fund Management Regulations:

### \ Retail Schemes

Limit Type	Restriction
Unlisted Securities (Open-ended)	Max <b>15%</b> of total AUM
Unlisted Securities (Closed-ended)	Max <b>50%</b> of total AUM
Single Company Exposure	Max <b>10%</b> of AUM (can go up to <b>15%</b> with fiduciary approval)
Associated Entities of FME	Max <b>25%</b> of AUM
Single Sector Exposure	Max <b>25%</b> of AUM (except financial services)
Financial Services Sector Exposure	Max <b>50%</b> of AUM
Exceptions	Sectoral, thematic, and index schemes are exempt from sectoral and company limits

### \ Restricted Schemes

Limit Type	Restriction
Unlisted Securities (Open-ended)	Max <b>25%</b> of corpus
Investment in Associate Entities	Allowed only with <b>75% investor approval</b> by value
Physical Assets (Closed-ended only)	Max <b>20%</b> of corpus (e.g., real estate, bullion, art)

### ETF Specific Norms:

Only Registered FMEs (Retail) are eligible to launch ETFs that must be listed on recognised stock exchanges within IFSC. ETFs include:

- \ Equity Index based ETFs
- \ Debt Index based ETFs
- \ Commodity based ETFs
- \ Gold ETFs
- \ Silver ETFs
- \ Hybrid ETFs (investing in 2 or more asset class)
- \ Actively Managed ETF
- \ Any other ETFs

Equity Index ETFs	Debt Index ETFs
Minimum 10 stocks	Minimum 5 issuers
Weight limits: 35% (sectoral), 25% (others)	Max 25% weight per issuer
95% replication of index	90% replication of index

## Special Situation Funds (SSFs):

Eligibility	Only Registered FMEs
Asset Types	<ul style="list-style-type: none"> <li>\ Stressed loans available for acquisition.</li> <li>\ Security Receipts (SRs) issued by RBI-registered Asset Reconstruction Companies (ARCs).</li> <li>\ Securities of companies:             <ul style="list-style-type: none"> <li>• With stressed loans,</li> <li>• Linked to SRs issued by ARCs,</li> <li>• Undergoing insolvency resolution,</li> <li>• In continuous loan default (subject to conditions).</li> </ul> </li> </ul>
Structure	close-ended with a minimum tenure of 3 years.
Tenure	extended by up to 2 years with consent from two-thirds of investors by value.
Leverage	Not allowed
Set up	At IFSC as a Company, LLP, or Trust

## ESG Schemes:

FMEs with AUM exceeding USD 3 billion are subject to enhanced sustainability-related obligations including:

- \ **Governance Policy:** FMEs must establish a formal policy addressing governance around material sustainability risks and opportunities.
- \ **Annual Disclosures:**
  - FMEs must explain in their annual reports how they identify, evaluate, and manage sustainability-related risks.
  - They must also detail how these risks and opportunities are integrated into investment strategies and decision-making processes.
- \ **ESG Scheme Transparency:**
  - FMEs launching ESG-focused schemes must provide comprehensive disclosures on investment objectives, policies, strategies, associated risks, benchmarks, and other relevant details.
  - Scheme documents submitted to IFSCA must clearly state whether sustainability risks are considered in investment decisions. If not, a negative declaration must be included.

## FME Substance Requirement

Under the IFSCA (Fund Management) Regulations, 2025, any Fund Management Entity (FME) seeking to launch funds in GIFT IFSC is required to:

- \ Establish a legal entity within GIFT IFSC
- \ Hire qualified professionals locally
- \ Ensure investment decisions originated from its GIFT IFSC office

While these measures strengthened regulatory oversight and governance, they also posed significant entry barriers, particularly for:

- Foreign General Partners (GPs) exploring the Indian market
- Emerging managers and family offices with limited resources

The introduction of the TPFMS framework directly addresses these challenges, offering a more accessible pathway for fund managers to participate in the GIFT IFSC ecosystem.

## The TPFMS Model

With a purpose to enable foreign and domestic fund managers to operate in GIFT IFSC without meeting substance requirements, on June 24, 2025, the International Financial Services Centres Authority (IFSCA) approved the Third-Party Fund Management Services (TPFMS). Referred to as the **Platform-Play Model** enables registered FMEs to manage schemes on behalf of third-party fund managers. Third-party managers can be based in India, IFSC, or abroad.

This model aligns with global models similar to that of Singapore, Mauritius, and Luxembourg, which host trillions in AUM, while incorporating safeguards tailored to India's regulatory landscape. Registered FMEs can now onboard external managers or clients on this platform without requiring each one to set up a separate FME. In simple words: "You don't have to move in, you just need a reliable host".

The eligibility conditions for third-party Fund Managers (TPFM) include:

- Be incorporated in India, IFSC, or a foreign jurisdiction.
- Demonstrate operational capability and qualified personnel.
- Meet the 'fit and proper' criteria under Regulation 9.
- Pick the right Host

FMEs intending to provide TPFMS must:

- Obtain specific authorisation from IFSCA
- Incorporated in IFSC as a company, LLP, or other approved legal form with their foundational documents must explicitly allow for third-party fund management.
- Maintain an additional net worth of USD 500,000, separate from other regulatory capital requirements.
- Scheme corpus must range between USD 3 million to USD 50 million.
- Maintain robust compliance infrastructure.
- Remain fully liable for regulatory obligations, regardless of indemnity arrangements
- Appoint Additional Key Managerial Personnel (KMP), Compliance Officers (separate for retail schemes) and Principal Officers for each scheme.
- Vet and monitor third-party managers
- Implement internal policies for Risk/conflict management, Fund segregation, Investor grievance redressal and Periodic audits and reviews
- Retain authority to terminate agreements in investor interest.

- \ All other relevant fund management regulations apply to FMEs under this framework, except where the parent or associate entity only provides support or advisory services without direct fund management.

Below is a quick view on the different roles and responsibilities within TPFMS framework.

Actor	Role & Responsibilities
IFSCA (Regulator)	<ul style="list-style-type: none"> <li>- Designs and enforces TFMS framework</li> <li>- Sets eligibility, fund caps, and compliance norms</li> <li>- Monitors FME conduct and fund operations</li> </ul>
External Fund Manager (Domestic/Foreign)	<ul style="list-style-type: none"> <li>- Develops investment strategy</li> <li>- Manages portfolio decisions</li> <li>- Engages with investors (non-discretionary role)</li> </ul>
Registered FME (Host Platform in IFSC)	<ul style="list-style-type: none"> <li>- Legally responsible for fund</li> <li>- Ensures regulatory compliance</li> <li>- Provides governance, risk, and reporting infrastructure</li> <li>- Appoints KMP, Principal, Compliance Officer</li> </ul>
Principal Officer of Host Platform	<ul style="list-style-type: none"> <li>- Key individual responsible for fund oversight</li> <li>- Ensures adherence to IFSCA norms</li> <li>- Interfaces with regulator</li> </ul>
Investors	<ul style="list-style-type: none"> <li>- Participate in restricted schemes</li> <li>- Benefit from global-grade fund management without substance constraints</li> </ul>
Industry Stakeholders	<ul style="list-style-type: none"> <li>- Provide feedback to IFSCA</li> <li>- Advocate for scalability, flexibility, and competitiveness</li> </ul>

While TPFMS framework offers foreign fund managers a low cost platform to enter Indian markets, with relaxed compliance overhaul, further clarity on applicable rules on capital and investments, defining eligibility for external managers, allowing standalone hosting platforms, TFMS can transform GIFT IFSC into a global capital gateway, rivalling Singapore, Mauritius, and Luxembourg in fund-hosting capability.

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