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GIFT City – Framework On Fund Management Entity

Background

- Gujarat International Fin-Tech City (GIFT City) is an International Financial Services Centre (IFSC) which was declared a multi-service Special Economic Zone (SEZ) in 2015 and set up for entities engaged in financial service activity.

- The International Financial Services Centres Authority (Fund Management) Regulations, 2022 (“FME Regulations”) were notified in April 2022.

- The primary objective behind the introduction of FME Regulations was to oversee and regulate the fund managers operating within the IFSC, rather than directly regulating the funds established within it.

- The FME regulations provide a comprehensive regulatory framework for Fund Managers setting up fund management entities (FME). The Fund Manager shall obtain registration from IFSCA and the conditions to be satisfied for launching of funds / schemes shall be as per the FME Regulations.

- Various tax and regulatory benefits have been offered to entities set up in GIFT City and the same are elaborated in the ensuing slides.

Categories

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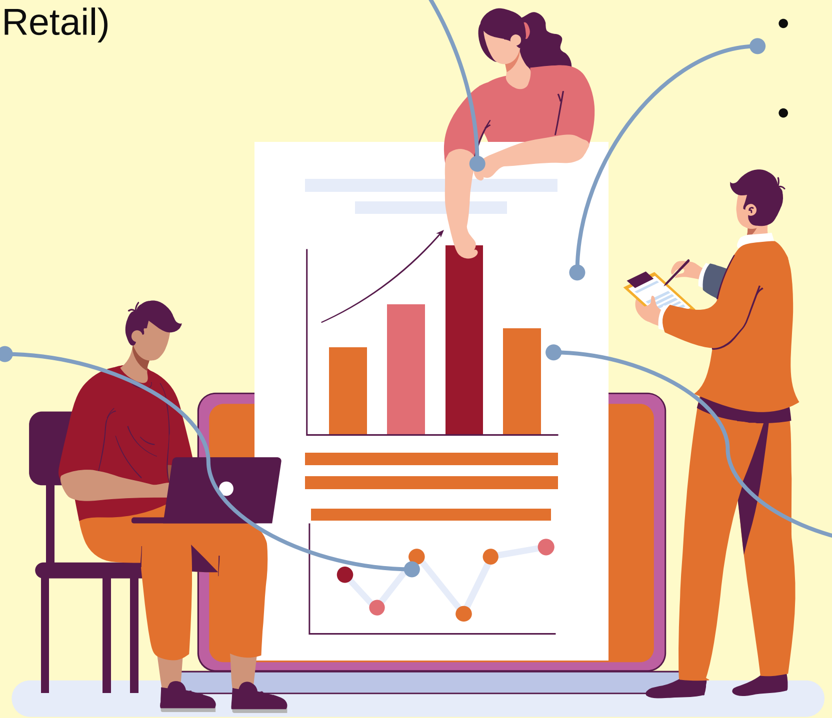
Fund Management Entity

- Authorized FME
- Registered FME (Non – Retail)
- Registered FME (Retail)

Funds / Schemes

- Venture Capital Schemes
- Restricted Schemes (Non-Retail Schemes)
- Retail Schemes



Focus Areas

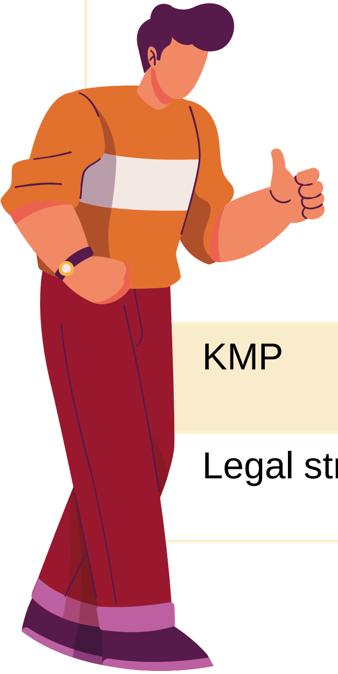
- ETFs
- ESG
- Special Situation Funds

Other FME activities

- Portfolio Management Services
- Investment Trusts
- Family Investment Funds

Key aspects – FME Registration Categories

Particulars	Authorized FME	Registered FME (Non-Retail)	Registered FME (Retail)
Regulatory oversight	Low	High	High
Type of schemes/funds that can be launched	• Venture Capital schemes • Early-stage ventures • Family Investment Fund	• Venture Capital Schemes • Restricted Schemes (Non-Retail) • Portfolio Management Services • Manager for REIT & InVIT's	• Venture Capital Schemes • Restricted Schemes (Non-Retail) • Restricted Schemes (Retail) • Activities of Registered FME (Non-Retail) and Authorized FME
Minimum net worth	USD 75,000	USD 500,000	USD 1,000,000
Track record	FME shall employ such employees who shall have relevant experience.		• FME or its holding company to have > 5 years of experience in managing AUM of at least USD 200mn with more than 25,000 investors. • At least 1 person in control holding more than 25% shareholding in the FME to have 5 years of experience • FME to employ such other experienced employees
KMP	1 (Principal Officer)	2 (Principal Officer & Compliance Officer)	3 (Principal Officer, Compliance Officer, Additional KMP for fund management)
Legal structure	Company, LLP, Branch	Company, LLP, Branch	Company, branch



Key aspects – Schemes (1/2)

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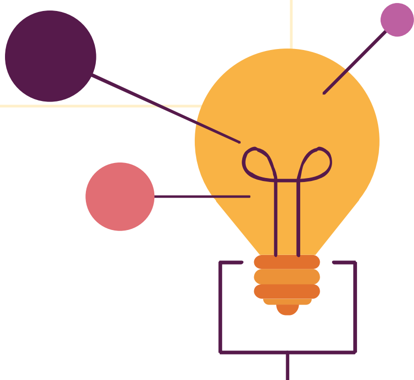
Particulars	Venture Capital Schemes	Non - Retail Schemes	Retail Schemes
Launched by	Any FME	Registered FME	Registered FME (Retail)
Legal Structure	Company, LLP, Trust	Company, LLP, Trust	Company, Trust
Corpus	USD 5 Million - 200 Million	Minimum USD 5 Million	Minimum USD 5 Million
Number of Investors	Maximum 50	Maximum 1000	Minimum 20 (with no single investor investing more than 25% in a scheme)
Minimum Investor Contribution	• Accredited Investors – No minimum contribution • Employees / directors / partners – USD 60,000 • Others – USD 250,000	• Accredited Investors – No minimum contribution • Employees / directors / partners – USD 40,000 • Others – USD 150,000	• Open ended Schemes – No min contribution • Close ended Schemes – USD 10,000 • Close ended Schemes investing less than 15% in unlisted securities – No min contribution
Common Investment Avenues	Listed securities, Unlisted securities, money market instruments, debt securities, securitised debts, units of mutual funds and AIF in India		
Scheme specific investment avenues	• Investment in other venture capital schemes • Investment in LLPs	• Investment in Derivatives • Investment in LLPs	• Investment in Derivatives
Construed as	• AIF Category I	• AIF Category based on the investments made by the scheme.	• AIF Category III

Key aspects – Schemes (2/2)

Particulars	Venture Capital Schemes	Non - Retail Schemes	Retail Schemes
Tenure	• Close ended • Minimum tenure shall be 3 years	• Open ended or close ended (depending on type of AIF) • Minimum tenure in case of close ended scheme shall be 1 year.	• Open ended or close ended • Minimum tenure in case of close ended scheme shall be 1 year.
Skin in the game contribution	• If targeted corpus is < $30mn: > 2.5% but < 10% of targeted corpus • If targeted corpus is > $30mn: > $ 750,000 but < 10% of targeted corpus (this condition can be waived off subject to obtaining 2/3rd investor approval)	• In case of close ended schemes, same as venture capital scheme. • In case of open ended schemes, ○ If targeted corpus is < $30mn: > 5% but < 10% of targeted corpus ○ If targeted corpus is > $30mn: > $ 1,500,000 but < 10% of targeted corpus (this condition can be waived off subject to obtaining 2/3rd investor approval)	• Lower of at least 1% of the AUM or USD 200,000. This is mandatory.



Key aspects – Family Investment Funds (1/2)

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- A Family Investment Fund ('FIF') is a fund which pools money from members of a single family and is a self-managed fund.

- It can be constituted as a Company, LLP or Contributory Trust or any other form as prescribed by the authority. If the entity is set up as a Trust, the beneficiaries should be identifiable and share of each beneficiary should be capable of being determined.

- The FIF can be open ended or close ended, depending on the requirements of the family.

- The FIF can borrow funds or engage in leveraging activities as per their risk management policy.

- There is no net worth criteria for an FIF. However, it shall maintain a minimum corpus of USD 10 million within a period of 3 years from the date of obtaining certificate of registration.

- 'Single Family' shall include individual family members (who are the lineal descendants of a common ancestor including spouses) and entities such as sole proprietorship firm, partnership firm, company, LLP, trust or a body corporate, in which an individual or a group of individuals of a 'single family' exercises control and directly or indirectly holds substantial economic interest (90% of shareholding of a company /profit sharing in a firm or LLP/ beneficial interest in a trust as the case may be).

Key aspects – Family Investment Funds (2/2)

- A FIF investing in securities and other permitted asset classes shall seek registration as an Authorized FME. However, it shall not be treated as an AIF for tax purposes, since the FIF would not be launching any schemes and is a self-managed fund.

- A FIF can invest in the following:

  - Listed securities
  - Unlisted securities
  - Money market instruments
  - Debt securities
  - Securitised debts
  - Units of mutual funds and AIF in India
  - Investment In LLP’s
  - Physical assets such as real estate, art, bullion etc.

IFSC Tax Implications – General Overview

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- An entity located in an IFSC is treated as a resident for income tax purposes. Therefore, global income would be subject to tax.

- Any entity located in an IFSC is eligible for 100% tax deduction on business profits for 10 consecutive years out of 15 years, at the option of the entity.

- Concessional tax rate of Minimum Alternate Tax/ Alternate Minimum Tax of 9% (plus applicable surcharge and cess) shall be applicable for an entity in IFSC. However, if a company opts for lower tax regime, MAT shall not be applicable.

- Since the IFSC entity is treated as an entity located in India, there shall not be any adverse implications under the place of effective management rules and the place of effective management would be deemed to be in India.

IFSC Tax Implications – Fund Management Entities (1/2)

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Category	In the hands of the FME	In the hands of the Investor
Cat I & Cat II AIFs	• Finance Act 2023 extended pass-through status for the funds regulated by the IFSC Fund Management Regulations 2022 by amending the definition of ‘investment fund’ under 115UB. Therefore, pass-through status is given, for income other than business income, in the hands of the fund and the income would be exempt in the hands of the funds under Section 10(23FBA). • Business income is taxable in the hands of the fund. However, deduction under Section 80LA can be claimed during the tax holiday period. • The fund shall withhold tax at 10% when payment is made to resident investor and at rates in force (subject to treaty benefit) in the case non-resident investors.	• Income other than business income is taxable in the hands of the investors and the tax rate would depend on the nature of income. • Business income shall not be taxable in the hands of the investor under Section 10(23FBB). • In the case of non-resident investors, if the income is earned through investment by the IFSC entity in off-shore funds, such income shall not be taxable in the hands of the non-residents as it shall be deemed to be direct investment outside India.

IFSC Tax Implications – Fund Management Entities (2/2)

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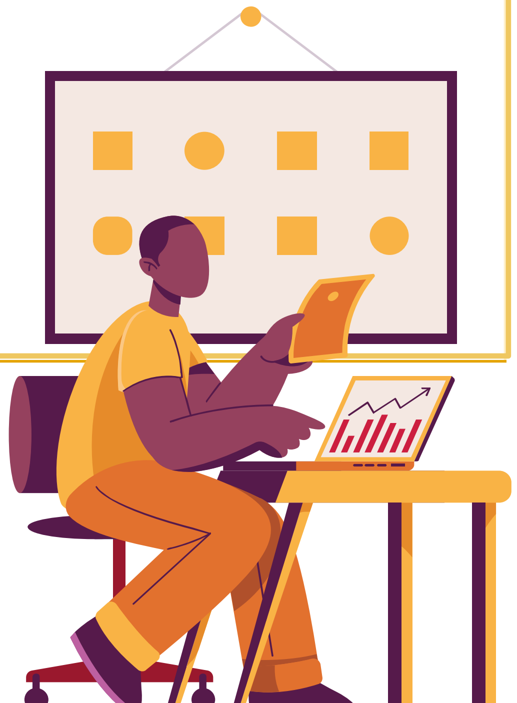
Category	In the hands of the FME	In the hands of the Investor
Cat III AIF	• No pass-through status is given to Cat III AIF. Therefore, all income will be taxable in the hands of the fund. However, 80LA deduction can be claimed for the business for which the IFSC entity has obtained approval from IFSC authorities. • Regular withholding tax provisions would apply, depending on the type of income. In case payment is made to non-residents, withholding tax under section 195 would be appicable subject to treaty benefits. • In case the CAT III AIF is a specified fund i.e., a fund set up as a company / LLP / trust / body corporate and where all units other than units held by sponsor or manager are held by non-residents, there are certain other exemptions that are available at the fund level under Section 10(4D).	• Since there is no pass-through status, the income would be taxable in the hands of the investor and the taxability would depend on the nature of the income. • In case the CAT III AIF is a specified fund, any income accruing or arising to, or received by, a unit holder from a specified fund or on transfer of units in a specified fund shall be exempt in the hands of the investor under Section 10(23FBC).



Exchange control Implications - Investment in Funds set up in IFSC

- Para 3 of the FEMA IFSC Regulations issued by Reserve Bank of India (‘RBI’) provides that a financial institution or a branch of a financial institution engaged in rendering financial services, set up in an IFSC in accordance with IFSC regulations, shall be treated as a “person resident outside India”. Therefore, any investment by Indian residents / entities into IFSC entity shall be subject to compliance of ODI Rules & Regulations.

- Contribution to any investment fund or vehicle set up in an IFSC shall be treated as an OPI.

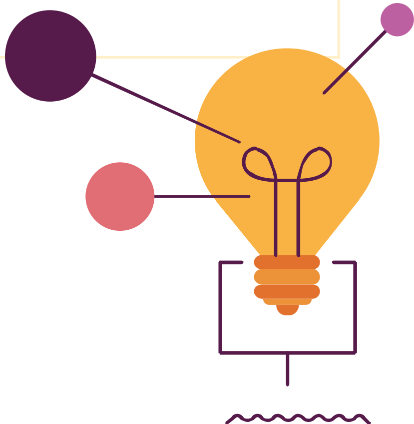
- Indian entity not engaged in financial service business can make ODI in an IFSC entity engaged in financial service business (except banking and insurance) and 3 years track record of profits condition does not apply.

- Resident individuals can invest in an IFSC entity that is engaged in financial service activity. However, such entity cannot have a subsidiary or step-down subsidiary outside IFSC (if such resident individual has control). Further, investment by resident individuals would be subject to overall LRS limit of $250,000.

- ODI Rules & Regulations shall not apply to investment made outside India by the IFSC entity.

IFSC AIFs vs SEBI AIFs

Particulars	SEBI AIF	IFSC FME
Who is regulated?	• Regulatory oversight through registration of the fund.	• Regulatory oversight through registration of the fund management entity.
Leveraging	• Cannot borrow funds other than for meeting temporary working capital requirements (for not more than 30 days). Further, it is subject to limits.	• Borrowing is permitted, provided certain conditions are satisfied.
Investment restrictions	• Certain threshold restrictions on the amount that can be invested in one entity prevail.	• No such threshold limits are applicable for IFSC AIFs.
Overseas investment restrictions	• Prior SEBI approval is required for investment in overseas entities. Further, the overall limit for AIFs investing abroad ($ 1,500 billion) is exhausted and hence AIFs in India cannot make any further overseas investment.	• No such approvals / limits required since IFSC AIFs are treated as a person resident outside India.
Tax holiday	• While pass through status is accorded to Cat I and Cat II AIFs, there is no tax holiday benefit for business income.	• Pass through status is applicable for IFSC Cat I and Cat II AIFs, along with tax holiday benefit for business income for all IFSC AIFs.



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