PRESS RELEASE

REVIEW OF IFSCA (FUND MANAGEMENT) REGULATIONS, 2022

The 42nd meeting of the IFSCA Authority Board was held on December 19, 2024.

The Authority, *inter-alia*, approved the proposal on review of IFSCA (Fund Management) Regulations, 2022 and to notify the reviewed Regulations. The Authority noted that the Fund Management industry in IFSC has grown at a healthy pace and the proposal for review of the Regulations is based on the experience gained and feedback received from market participants through exhaustive consultation process undertaken by IFSCA.

The overarching principle of registering the Fund Management Entity (FME) with it being permitted to undertake host of fund management activities and the overall regulatory framework remains the same. However, changes have been undertaken to usher in further ease of doing business, clarify the intent of certain regulatory provisions and introduce safeguards as are deemed necessary for the protection of investors' interest.

The following are the key changes in the proposed regulations:

A. Non-Retail Schemes (Venture Capital Schemes and Restricted Schemes)

1. The minimum corpus of scheme is reduced from USD 5 Mn to USD 3 Mn.

2. The validity of scheme's PPM is increased to 12 months from IFSCA's communication regarding taking it on record. Further, for open-ended schemes, it was decided that the investment activities may commence upon achieving a corpus of USD 1 Mn and the minimum corpus of USD 3 Mn shall be achieved within 12 months period.

3. The contribution by FME / its Associate(s) in a scheme, presently restricted at 10%, is permitted up to 100%, subject to the following conditions:

    a. the FME / its Associate that invests in scheme and their UBOs are persons not resident in India, and

    b. Such scheme shall not invest more than 1/3rd of its corpus in any 1 company & its associates.

4. A provision for joint investments by 2 individuals with specific relationships is provided for non-retail schemes.

5. The categorization for AIFs and Family Investment Funds (FIFs) is streamlined for better clarity.

6. Schemes will be restricted from buying or selling securities from associates, other schemes of the FME or its associates, or a major investor (who has committed to invest at least 50% of the corpus of the scheme), unless prior approval has been obtained from seventy-five percent (75%) investors in the scheme by value, wherein the major investor shall be excluded from the voting process if the transaction is with the major investor.

7. The valuation of scheme's assets by an independent service provider is exempted for fund of funds scheme if the underlying fund has been valued by an independent service provider.

B. <u>Manpower requirements for FMEs</u>

1. The requirement to appoint KMPs with the prior approval of IFSCA is dispensed with and the FMEs shall henceforth be required to only intimate the same to IFSCA.

2. FMEs managing an AUM of at least USD 1 Billion, wherein the AUM of fund of funds scheme shall not be considered, as at the close of a FY will be required to appoint an additional Key Managerial Personnel (KMP).

3. The requirement of additional KMP for Registered FME (Retail) may be met before filing a Retail Scheme or ETF with the IFSCA.

4. Further, with respect to the educational qualification and professional experience of the KMPs the same is being streamlined.

5. In order to ensure continued competence, employees of FMEs will be required to undergo certifications from such institutions as may be specified by IFSCA.

C. Registered FME (Retail) and Retail Schemes

1. For the 'track record' of a Registered FME (Retail), it was decided that –

   a. The extant criteria of 5 years of experience in managing AUM of USD 200 Mn and 25,000 investors may be evaluated by considering the experience of FME, its holding company or their subsidiaries.

   b. The extant criteria of a person in control of the FME holding more than 25% shareholding in the FME and carrying on business in financial services for at least 5 years is revised as follows:

      i. The FME shall have person(s) with more than 25% shareholding in the FME, each carrying on activities related to fund management, including portfolio management, wealth management, distribution of financial products, and investment advisory, for a period not less than 5 years, collectively for at least one-thousand (1,000) investors on assets of at least USD 50 million, and

ii. The FME has a net worth of USD 2 Million or such other net worth as may be specified by IFSCA.

2. The minimum corpus is reduced from USD 5 Mn to USD 3 Mn. For open-ended schemes, it is decided that the investment activities may commence upon achieving a corpus of USD 1 Mn and the minimum corpus of USD 3 Mn may be achieved within 12 months.

3. The cap of investment in single company by a sectoral / thematic / Index scheme is linked to the weightage of that company in the representative index (by an independent entity) that such scheme intends to benchmark with or 15%, whichever is higher.

4. The restrictions in retail scheme such as single company, single sector, etc., will not apply to fund of funds scheme, if the underlying fund(s) satisfy the investment restrictions specified in the regulations.

5. The valuation of scheme's assets by an independent service provider is exempt for fund of funds scheme if the underlying fund(s) have been valued by an independent service provider.

6. The requirement of listing of close-ended Retail Schemes on recognized stock exchanges is made optional if minimum amount of investment by each investor in the scheme is at least USD 10,000.

D. ***Other key matters***

1. For schemes requiring to appoint a custodian, an IFSCA registered custodian will be required to be appointed, subject to the following –

a. FoF schemes are exempted from the requirement to appoint a custodian.

b. For securities issued in foreign jurisdictions, a regulated custodian may be appointed in that jurisdiction if local laws mandate appointment of a custodian there. However, FME will be required to make necessary arrangement to provide such information to Authority, whenever directed to do so.

c. For schemes which are required to appoint custodian in IFSC in accordance with the regulations, a transition period of 12 months is being provided.

2. The “fit and proper” criteria under the regulations have been further streamlined.

3. For Non-Retail and Retail Schemes, pending deployment of money, in addition to existing permitted financial products, the money may also be invested in bank deposits and overnight schemes.

4. For Portfolio Management Services (PMS), the minimum investment amount is reduced to USD 75,000 from USD 150,000. Further, clients under PMS are also permitted to transfer their funds in a designated broking account which may be then managed by the FME under PMS, subject to certain safeguards.

5. FMEs may open branch or representative offices in other jurisdictions without prior approval from IFSCA only for the purpose of marketing their offerings and client service.

6. Certain provisions on valuation by credit rating agency, restrictions in retail schemes, family investment funds, etc., issued by way of circular in the past, have also been subsumed in the proposed regulations.

December 21, 2024

Gandhinagar