VISTRA

Fund Ecosystem

India's Innovative Offshore Base - IFSCA GIFT-SEZ

Presented by

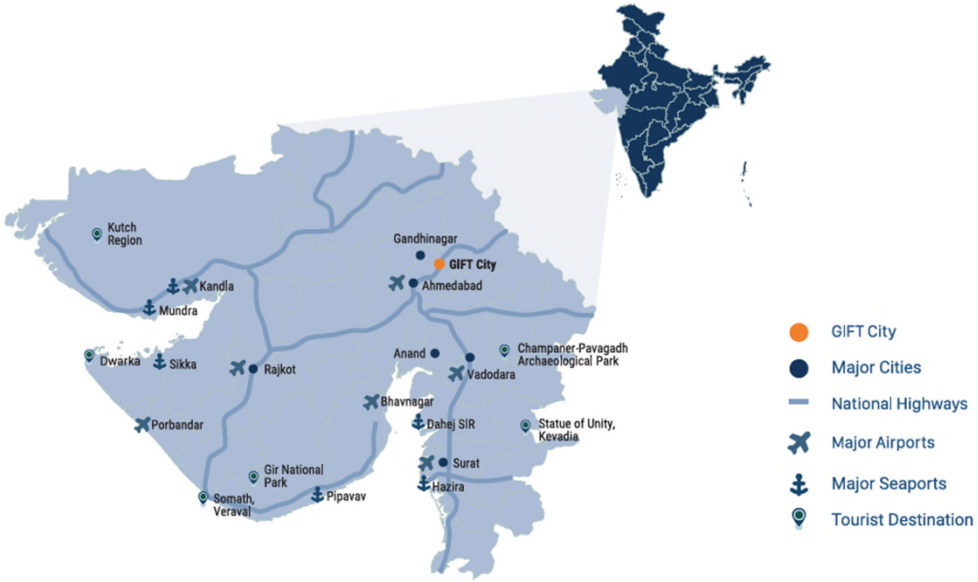
Vistra

2024

India’s First International Financial Service Centre (IFSC)

- Government of India has approved GIFT city based in Gandhinagar, Gujrat as a Multi Service Special Economic Zone (‘GIFT SEZ’) and notified this zone as India’s IFSC
- The purpose of launching IFSC is to create an ecosystem for providing various financial services in India
- IFSC unit is treated as a non-resident under existing Foreign Exchange Management regulations (FEMA)
- IFSC unit can transact with other IFSC unit or foreign entitles
- Transactions in IFSC allowed only in convertible foreign currency
- Investment by existing entity in IFSC would be treated as ODI and subject to FEMA Regulations

Regulated by the Government of India under Special Economic Zone Act,2005



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Who are present IFSCA?

Banking	Insurance	Market Infrastructure Institutions
Asset Management	Ancillary Services	Fintech
Metals & Commodity exchange	Finance Companies	Debenture Trustees

The Tax Regime

100% Corporate tax exemption (for 10 out of 15 years)

9% concessional rate on MAT applicable for the IFSC units at 9%.However MAT provision not applicable for companies opting for concessional tax rate under Sec. 115 BAA of the Income tax Act,1961

4% Withholding tax @ 4% on interest paid on Debt Instruments listed on IFSC Exchanges

0% Securities Transaction tax(STT)/ Commodities Transaction Tax (CTT)/Goods & Services Tax (GST)/Stamp Duty *on specified securities transferred on recognized stock exchange in IFSC*

0% No Capital Gain Tax On specified securities transferred on recognized stock exchanges in IFSC

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Section

Fund Management

in IFSC

01

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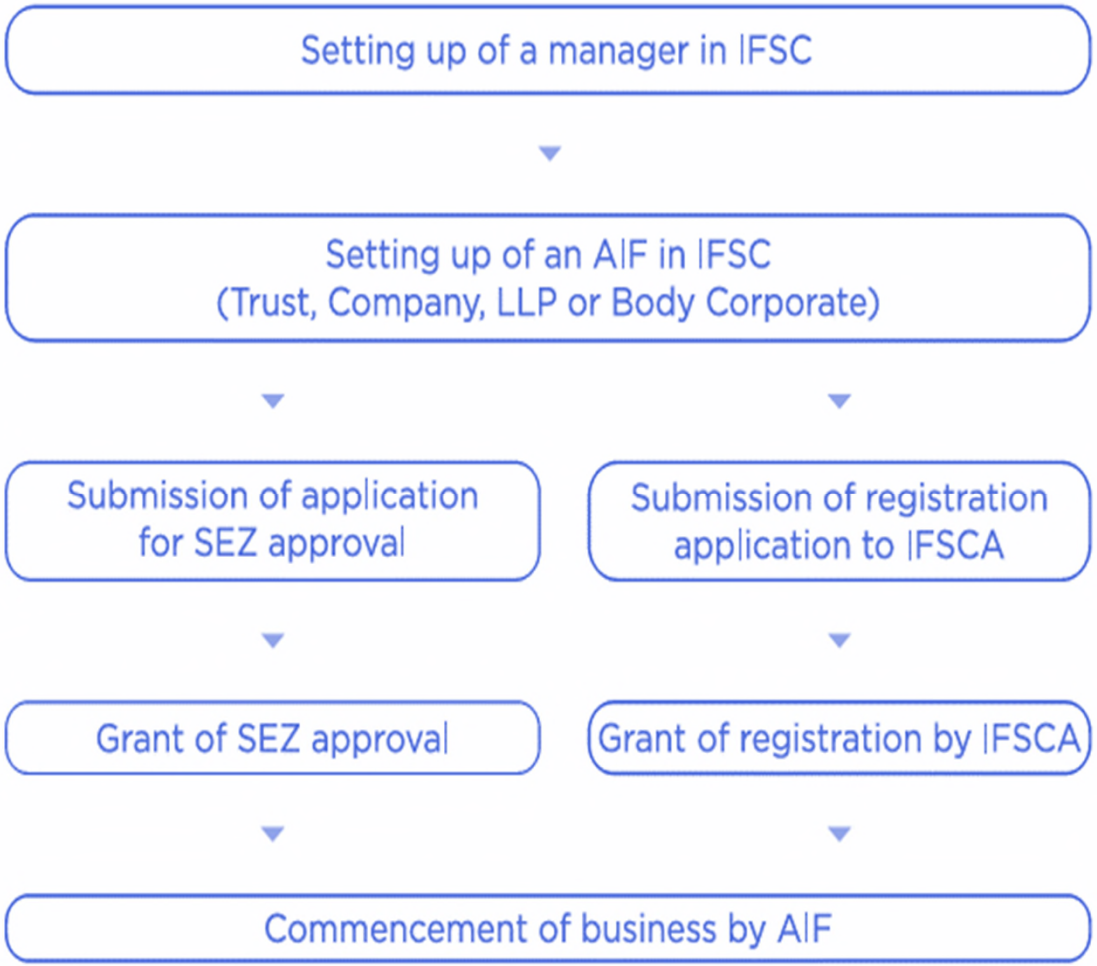
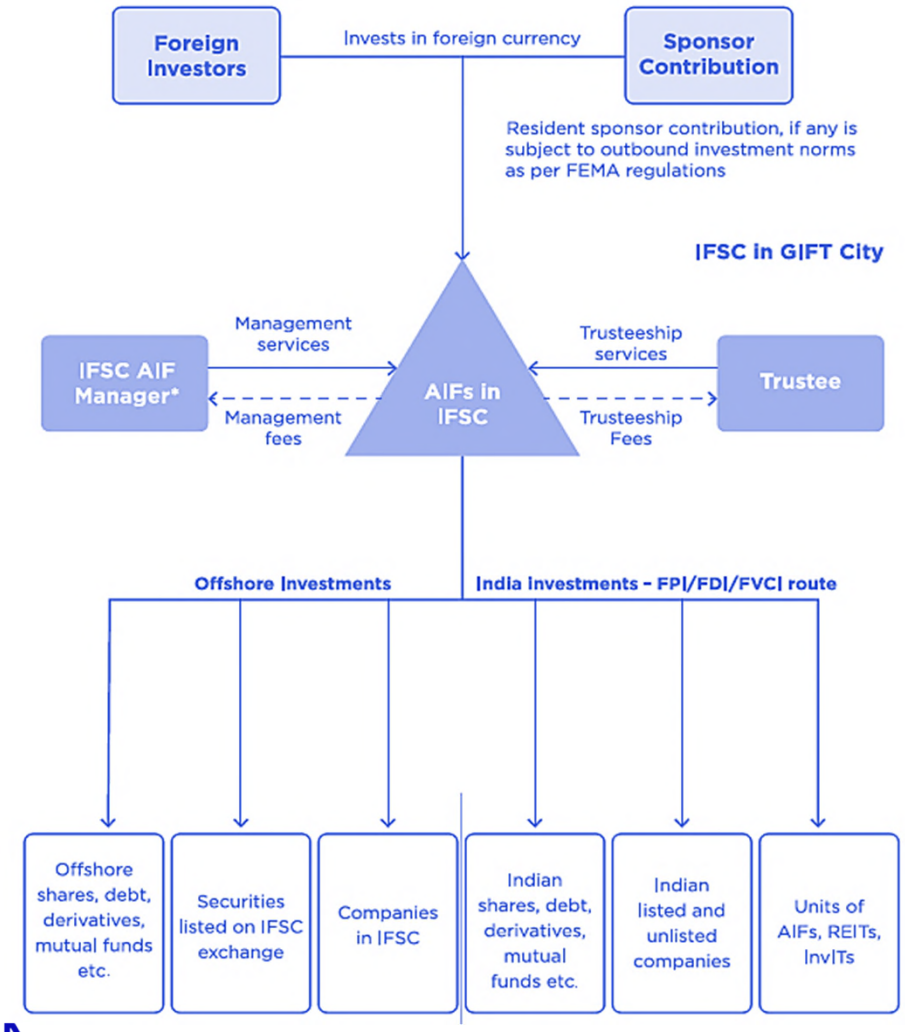
Set-up Process



Key Benefits

- ✓ Lower Operating Costs
- ✓ Competitive Tax Regime
- ✓ No limits on outbound investments
- ✓ Engagement with unified financial regulator
- ✓ Permitted to borrow funds and engage in leveraging activities
- ✓ Enabling ecosystem for fund management with presence of key stakeholders including custodians and fund administrators
- ✓ No diversification limits on investments made by an AIF in IFSC provided the investment made is in line with the risk appetite of the investors and appropriate disclosures are made.



Inbound Investments

**IFSC Manager can act as a sponsor*

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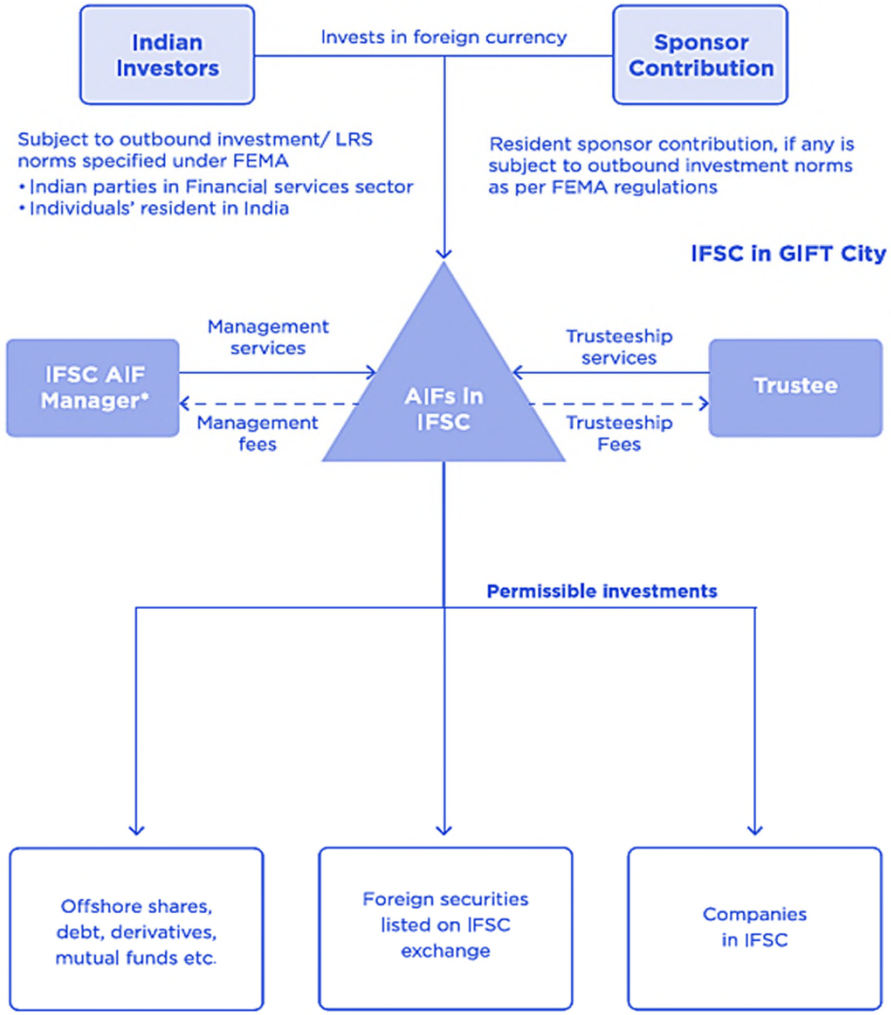
Outbound Investments



*IFSC Manager can act as a sponsor

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Eligibility Conditions

Substance requirement

- Track record and reputation of fairness (Ref. Regulation 6)
  - The applicant is required have a soundtrack record and general reputation of fairness and integrity in all its business transactions
- Staffing and competency requirements (Ref. Regulation 7)
  - Continued next slide…
- Net worth requirement (Ref. Regulation 8)
  - Authorized FME – USD 75,000; Registered FME (Non-retail) – USD 500,000; Registered FME (Retail) – USD 1,000,000
- Fit & proper requirement (Ref. Regulation 9)
  - The applicant and its principal officer(s), directors/ partners/ designated partners, key managerial personnel and controlling shareholders are required to fulfill the fit and proper person criteria specified in Regulation 9, at all times
- Infrastructure requirements (Ref. Regulation 10)
  - The FME is required to ensure that it has the necessary infrastructure like adequate office space, equipment, communication facilities and manpower to effectively discharge its activities.
  - The infrastructure requirements should be commensurate to the size of its operations in IFSC. The office should be dedicated, secured and accessible only by authorized person(s)

Staffing Requirements

KMP appointment

- Principal officer and KMPs to be “based out” of IFSC
- A KMP is designated as “Principal Officer” who shall be responsible for overall activities of the FME (including but not limited to fund management, risk management and compliance).
- Registered FME (Retail & Non-retail) - An additional KMP is designated as a “Compliance and Risk Manager” responsible for compliance with the Regulations and ensuring suitable risk management policies and practices at the FME
- Registered FME (Retail) -An additional KMP is assigned with the responsibility of fund management
- Experience and professional qualification of Principal Officer & other KMPs
    - **Professional Qualification**: A professional qualification or post-graduate degree or post graduate diploma (minimum 2 years) in finance, law, accountancy, business management, commerce, economics, capital market, banking, insurance or actuarial science from a recognized university/ institution or a certification from any organization/institution/ association/ stock exchange which is recognized/ accredited by the IFSCA or a regulator in India or Foreign Jurisdiction; and
    - **Experience:** At least 5 years in related activities in the securities market or financial products including in a portfolio manager, broker dealer, investment advisor, wealth manager, research analyst or fund management

Fund Management Entity (FME) Framework

A Fund Management Entity (FME) is an entity registered with the Authority under one of the categories specified in regulation 3(4) of the IFSCA (Fund Management) Regulations, 2022 ("Regulations"), for undertaking the business of fund management in an International Financial Services Centre (IFSC). In order to have direct oversight over the fund manager and in line with the best in class global practices, the Fund Management Entity is registered with the Authority. This also facilitates the FME to undertake a host of activities related to fund management under a single registration.

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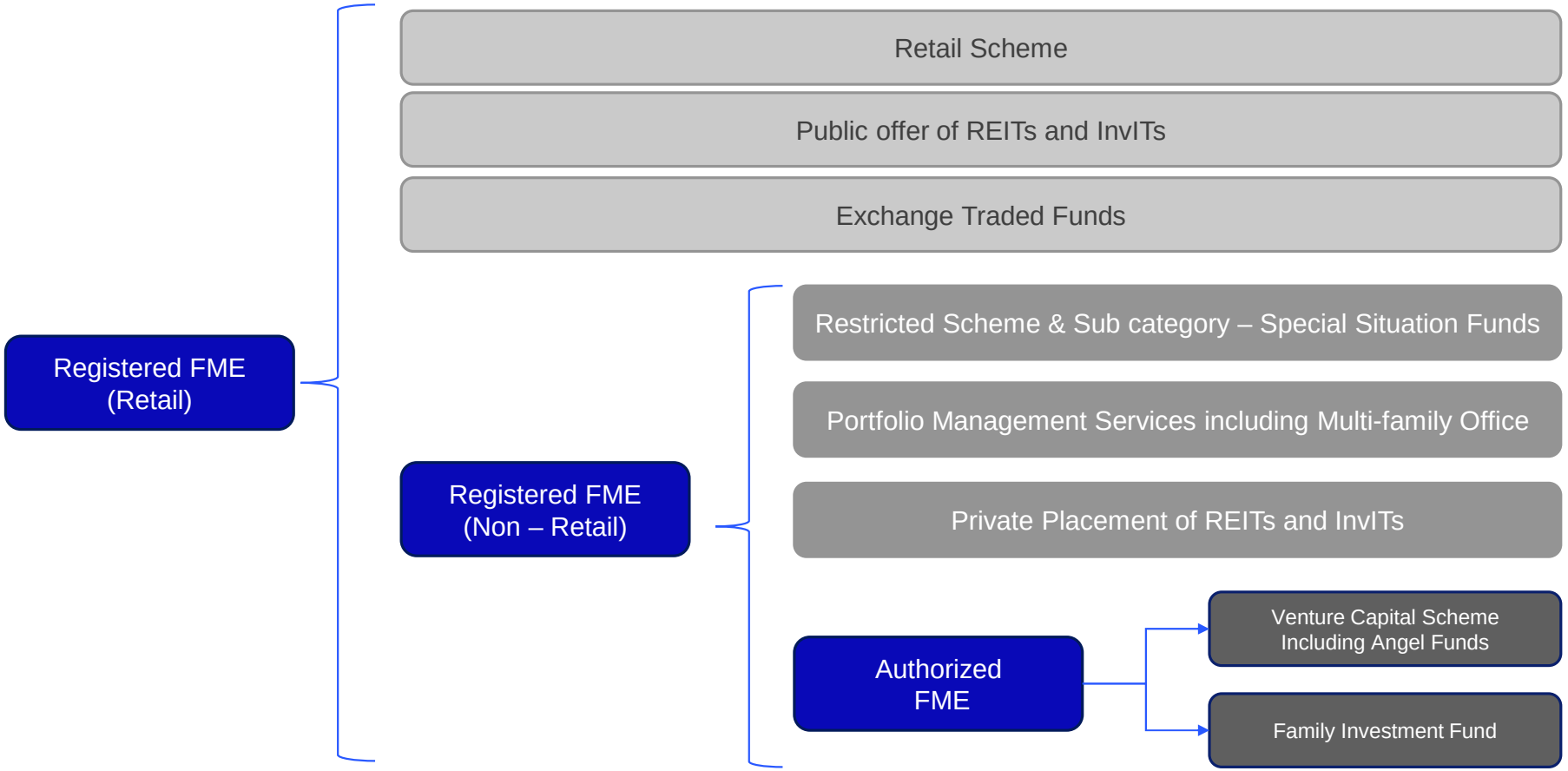
Categories of FME

Type of FME	Description
Authorized FME	• FME to pool money from accredited investors or investors making capital commitment of at least USD 250,000 (lower threshold of USD 60,000 in case of employees/directors/ designated partners through Venture Capital Sch. • FME to invest in start-up or early-stage ventures through Venture Capital Scheme. • Family Investment Fund • Restricted to service less than 50 investors under each scheme and overall, AUM up to USD 200 million.
Registered FME	**Registered FME (Non- Retail)** • FME to pool money from accredited investors or investors making capital commitment of at least USD 150,000(lower threshold of USD 40,000 in case of employees/ directors/Designated Partners of the FME) • Portfolio Management Services • Multi Family Offices • Private Placement of Investment Trusts(REITs and InvITs) • Allowed to undertake all activities of Authorized FMEs **Registered FME (Retail)** • FME to pool monies from all investors or a section of the investors under one or more schemes for investing in securities,financial products and such other permitted asset classes through retail or restricted schemes. • Public offer of Investment Trusts(REITs and InvITs),ETFs • Allowed to undertake all activities of Authorized FMEs and Registered FME(Non-Retail)

 A FME managing assets of value above USD 3 billion as at the close of a financial year is required to comply with prescribed ESG related requirements.

What activities can FMEs do?



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Key Attributes of FME (1/2)

Particulars	Categories of FME		
	Authorized FME	**Registered FME (Non-Retail)**	**Registered FME(Retail)**
Types of schemes managed	Venture Capital Schemes offered on private placement basis	Venture Capital Schemes and Restricted Schemes offered on a private placement basis	All schemes including Retail Schemes offered to all investors including retail investors
Legal Structure of FME	Company, limited liability partnership(LLP) or branch thereof		Company
Maximum net worth (incl. 'skin- in-the-game' contribution)	USD 75,000	USD 500,000	USD 1,000,000
'Skin-in-the-game' contribution by the FME/ its associate entity in the scheme	**Close-ended fund-** Lower of: • 2.5% of the corpus of the scheme or • USD 750,000	**Close-ended fund-** Lower of: • 2.5% of the corpus of the scheme or • USD 750,000 **Open-ended Fund-** Lower of: • 5% of the corpus of the scheme or • USD 1,500,000	**Open-ended Fund-** Lower of: • 1% of the corpus of the scheme or • USD 200,000

In case of FMEs operating in branch structure in IFSC, the specified minimum net worth requirement may be maintained at the parent level. However, the parent entity is required to ensure that adequate funds are available for branch for its day-to-day operations

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Key Attributes of FME (2/2)

Particulars	Categories of FME		
	Authorized FME	**Registered FME (Non-Retail)**	**Registered FME(Retail)**
Types of schemes managed	Venture Capital Schemes offered on private placement basis	Venture Capital Schemes and Restricted Schemes offered on a private placement basis	All schemes including Retail Schemes offered to all investors including retail investors
Legal Structure of FME	Company, limited liability partnership(LLP) or branch thereof		Company
Maximum net worth (incl. 'skin- in-the-game' contribution)	USD 75,000	USD 500,000	USD 1,000,000
'Skin-in-the-game' contribution by the FME/ its associate entity in the scheme	**Close-ended fund-** Lower of: • 2.5% of the corpus of the scheme or • USD 750,000	**Close-ended fund-** Lower of: • 2.5% of the corpus of the scheme or • USD 750,000 **Open-ended Fund-** Lower of: • 5% of the corpus of the scheme or • USD 1,500,000	**Open-ended Fund-** Lower of: • 1% of the corpus of the scheme or • USD 200,000

IFSCA may undertake inspection of office before grant of registration

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Section

Schemes for FME

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Venture Capital Scheme

- VC schemes primarily invest in unlisted securities of start-ups, emerging or early-stage venture capital undertakings mainly involved in new products, new services, technology or intellectual property right based activities or a new business model or other schemes which invest in such entities and shall also include an Angel Fund
- Offered on a private placement basis(including accredited investors) through Green channel for subscription by investors
- May be launched by Authorized FME or Registered FME (Retail & Non- Retail)
- "Angel fund" or "Angel scheme" is a sub-category of venture capital scheme as specified IFSCA (FM) Regulations, 2022 (Link to circular)

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Restricted Schemes

- Launched by Registered FME, Akin to Category I,II and III AIFs under SEBI (AIF Regulations),2012
- Category I & Category II AIFs may be launched only as close-ended schemes, the Category III AIF is either as an open-ended or a close-ended scheme
- Extension of the tenure of close-ended schemes may be permitted up to 2 years subject to approval of 2/3rd of the investors by value of their investment, any further extension beyond two (2) years may be considered subject to express consent of the investors and exit opportunity shall be provided to other investors
- If Restricted Schemes has only accredited investors, it can be under a green channel & can open for subscription from investors immediately upon filing with the Authority

Retail Scheme

- A **registered FME** is required to file a draft offer document, duly approved by the fiduciaries, with the Authority along with the applicable fees, at least twenty-one (21) working days before the launch of the scheme. The FME shall ensure that the comments of the Authority are incorporated in the offer document prior to launch of the scheme.
- A Retail Scheme may be open-ended or close-ended scheme,
- It is required to have at least 20 investors with no single investor investing more than 25% in a scheme. This condition may be complied within a maximum period of six (6) months from the closure of the offer.
- FME Contribution is mandatory, exception cases provided by IFSCA in FAQs of FM regulations

Key Attributes of Scheme (1/3)

Particulars	Categories of Scheme		
	Venture Capital Scheme	**Restricted Schemes**	**Retail Scheme**
Legal Structure	Company/LLP/Trust	Company/LLP/Trust	Company/Trust
Type of Fund/Scheme	Close- ended	Open-ended or close-ended	A Retail Scheme may be launched as an open-ended or close-ended scheme. In case of a close-ended scheme, the maximum tenure should be decided upfront and disclosed in the offer document. The minimum tenure of a close-ended scheme shall be 3 years.
Corpus	• Minimum- USD 5 Million • Maximum-USD 200 Million	• Minimum- USD 5 Million • Maximum- No limit	
Number of investors in the scheme	<50	<1000 or such number as may be prescribed by the IFSCA	At least 20 investors +no single investor holding >25% ; no restriction on maximum number
FME Contribution: • The contribution shall be made by the FME or its associate entity within 45 days from the launch of the scheme and maintained on an ongoing basis. • Exemption conditions has been provided by IFSCA for each	• at least 2.5% of the targeted corpus & not exceeding 10% of the targeted corpus in a scheme with targeted corpus <USD 30 Mn; • at least USD 750,000 & not exceeding 10% of the targeted corpus in a scheme with targeted corpus of >USD 30 Million	Close ended Sch.: Same as VC Sch. Open ended Scheme: • >5% of the targeted corpus & not exceeding 10% same corpus in a scheme with targeted corpus <USD 30 Mn; • >USD 1,500,000 & not exceeding 10% of the targeted corpus in a scheme with targeted corpus of >USD 30 Mn.	The FME is required to invest at least, lower of: • 1% of the AUM of the scheme; Or • USD 200,000.

Key Attributes of Scheme (2/3)

Particulars	Categories of Scheme		
	Venture Capital Scheme	Restricted Schemes	Retail Scheme
Minimum contribution or capital commitment from an investor in the scheme	• Accredited investors-None • Other than Accredited investors- USD 250,000 • Employees/Direct ors/Designated Partners of the FME –USD 60,000	• Accredited investors (no threshold) • Other than Accredited Investors- • 1)above USD 150,000 2)Employees/Directors/Designated Partners of the FME->USD 40,000	• Open-ended schemes-None • Close-ended schemes-Minimum investment to be USD 10,000 • No restriction to Close-ended schemes investing less than 15% in unlisted securities
Asset Classes	Primarily, in unlisted securities of start-ups , specified VCUs	Several asset classes including listed securities, unlisted securities, derivatives, etc Close-ended schemes-Up to 20% of corpus may be invested in physical assets such as real estate, bullion, art or any other physical assets as specified	Several asset classes including listed securities, unlisted securities, derivatives, etc.

Key Attributes of Scheme (3/3)

Particulars	Categories of Scheme		
	Venture Capital Scheme	**Restricted Schemes**	**Retail Scheme**
Investment restrictions	• At least 80% of AUM to be invested in companies incorporated for <7 years or other venture capital schemes. • Investment in associate entities subject to prior approval of 75%investors in the scheme by value	• Maximum investment by an open-ended Restricted Scheme in securities of unlisted companies should not exceed 25% of the corpus of the scheme. • Investment in associated entities subject to prior approval of 75% investors in the scheme by value	• Cap on investment in single investee company-10% of AUM; 15% subject to prior approval of the fiduciaries(not applicable in case of Index schemes) • Cap on investment in a single sector-25% of AUM (50% for financial service sector)(not applicable in case of sectoral/ thematic/ Index schemes) • Cap on investment in associate entities-25% of AUM
Cap on investment in unlisted securities	None	• Open-ended scheme-25% of the corpus of the scheme • Close-ended scheme- No such restriction	• Open-ended scheme-15% of the AUM of the scheme • Close-ended scheme-50% of the AUM of the scheme
NAV Disclosure	Yearly	• Open-ended scheme-Monthly • Close-ended scheme- Half-yearly	• Open-ended scheme-Daily • Close-ended scheme- Weekly
Leverage	Permissible Subject to: • Disclosure of maximum leverage and methodology for calculation of leverage in the placement memorandum • Consent of investors two-thirds (2/3rd) of the investors by value		Permissible only for meeting temporary liquidity requirement(for meeting redemptions or dividend payments) up to 20% of AUM of the scheme and the duration of such borrowing to not exceed 6 months

Restricted Scheme Categories

Alternative Investment Funds

Parameter	Category I	Category II	Category III
Type	Funds which invest in start-ups, early-stage ventures, social ventures, SME's and Infrastructure, etc. E.g.: Early-stage Venture Capital and Social Venture Funds	Residual category i.e., other than Category I AIF and Category III AIF. Eg: Private Equity & Venture Capital Funds	Funds which employ diverse or complex trading strategies. Eg Hedge Funds
Structure	• Trust • Company • Limited • liability partnership • Body corporate	Same	Same
Minimum investment Criteria			
employees or directors of AIF or its manager	US$ 40,000	Same	Same
Other Investors	US$ 150,000	Same	Same
Tenure	Min. 3 years. Extension of term is possible subject to conditions	Same	NA

Parameter	Category I	Category II	Category III
Min. Corpus per scheme	USD 3,000,000 For Angel funds: USD 750,000	Same	Same
Leverage	Permitted with consent of Investors	Same	Same
Co-investment in segregated portfolios	Permitted to co-invest though segregated portfolio by issuing a separate class of units	Same	Same
Appointment of Custodian	Sponsor/Manager of Category I –AIF must appoint a custodian if the corpus exceeds USD 70 million	Same	Mandatory Irrespective of Corpus
Continuing interest of manager or sponsor (not as waiver of fees)	Lower of: • 2.5% of corpus • USD 750,000	Same	Lower of: • 5% of corpus • USD 1,500,000

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Taxation*

04

*this section is only a brief overview for understanding purpose, the same has been collated from information available in public domain. Kindly consult tax advisor for further details.

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Key Tax Incentives & Benefits

For FME, AIF and its Investors

Categories of AIF	
CAT I & II	**CAT III***
• Pass through status for Indian Income Tax purpose	• Non-Resident investors are exempt from obtaining PAN and filing return of income in India
• Non-resident investors are exempt from obtaining PAN & Filing return of Income in India	• Category III AIFs are subject to fund level taxation
• Income accruing or arising or received by Non-resident Investors from off- shore investments not taxable in India	Exemption from tax for non-resident investors on income from: • Transfer of Indian securities (other than shares of Indian company) • Securities issued by non-resident (not being a PE) with no accrual of income in India • Transfer of offshore securities/certain securities traded on IFSC exchanges • Securitisation trust which is chargeable under the head profits and gains of business or profession
	• Income on transfer of shares in an Indian company is taxable as follows: **Short term Capital Gains:** 15% if Securities Transaction Tax paid, else 30% **Long term capital gains:** 10%

**All investors to be non-resident other than sponsor and/or manager*

For Investment Managers

- 100% corporate tax exemption for 10 consecutive years out of block of 15 years
- The dividend distributed by Manager may be taxable in the hands of its shareholders.
- Supply of services by Manager in IFSC is exempt from Goods and Services Tax.

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Comparative tax analysis of AIFs operating in selected offshore jurisdiction vs IFSC

Type of Income	Singapore	Mauritius	IFSC (India)
Taxability of capital gains on sale of equity shares in India	Taxable	Taxable	Taxable
Capital gains on sale of other securities in India (including derivatives, bonds, AIF units, mutual fund units,etc)	Exempt under treaty	Exempt under treaty	Exempt under Indian tax law
Tax on Interest from G- secs and qualifying bonds	5%	5%	10%/ 5% if section 194LD applies
Tax on interest from other securities	15%	7.5%	10%
Dividend	15%	15%	10% * /0% **

**Provided it is CAT III AIF and specified fund as per section 10 (4D)*
***Provided it is CAT I or CAT II AIF*

Tax exemptions to Non-resident investors dealing in IFSC

Sr. no	Product	Investor	Taxability under income tax laws
1	Category I or II AIF in IFSC	Unit holder of category I or II AIF in FSC	Cat I or Cat II AIFs located in IFSC earning business income and distributing the same to its non-resident unit holders is exempt from tax
2	Category III AIF in IFSC which qualifies as a specified fund under section 10(4D) of the Act	Non- resident unit holder of Category III AIF in IFSC	• Transfer of units of Category III AIF in IFSC fulfilling specified conditions; • Any other income receivable from Category III AID in IFSC • Exempt from tax [Section 10(4D) and Section 10(23FBC)]

Why Vistra?

- ❖Capability to replicate global practice within IFSCA framework, for benefit of Indian funds
- ❖Well-known name in global framework as Vistra Services 65 % of PE firms worldwide
- ❖One of largest number of employees delivering out of GIFT City
- ❖One stop solution provider to the entire fund ecosystem
- ❖Expertise in handling both core & non-core activities
- ❖Significant market share in GIFT

26+ FMEs (With 50+ AIFs)

Service provided to

11+ Live

Fund Accounting & Administration

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Section

Key Clients

05

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Vistra – GIFT City

Important Links

06

- IFSCA (FM) Regulations, 2022 :Link to Circular
- FAQ on (FM) Regulations :FAQ Link
- Framework for Angel Funds: Link to circular
- AML Guidelines IFSCA : Link to Circular
- Additional AML measures:Link
- Disclosures by FME for Environmental, Social or Governance (ESG) Schemes: Link
- Clarifications in relation to Family Investment Funds :Link
- Authorisation of Scheme file under IFSCA (Fund Management) Regulations 2022:Link
- Latest Amendment to Reporting Norms Circular:Link
- FAQs on Registration of a Fund Management Entity (FME) and Authorisation of a Scheme or Fund under IFSCA (Fund Management) Regulations, 2022 :Link
- Time limit for disposal of applications:Link
- Accredited Investors:Link

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About Vistra

Here at Vistra, our purpose is progress.

As a close ally to our clients, our role is to remove the friction that comes from the complexity of global business.

We partner with companies and private capital managers along the **corporate and private capital lifecycle.**

From HR to tax and from legal entity management to regulatory compliance, we quietly fix the **operational and administrative** frustrations that hamper business growth.

With over **9,000 experts** in more than **50 markets,** we can accelerate progress, improve processes, and reduce risk, wherever your ambition takes you.

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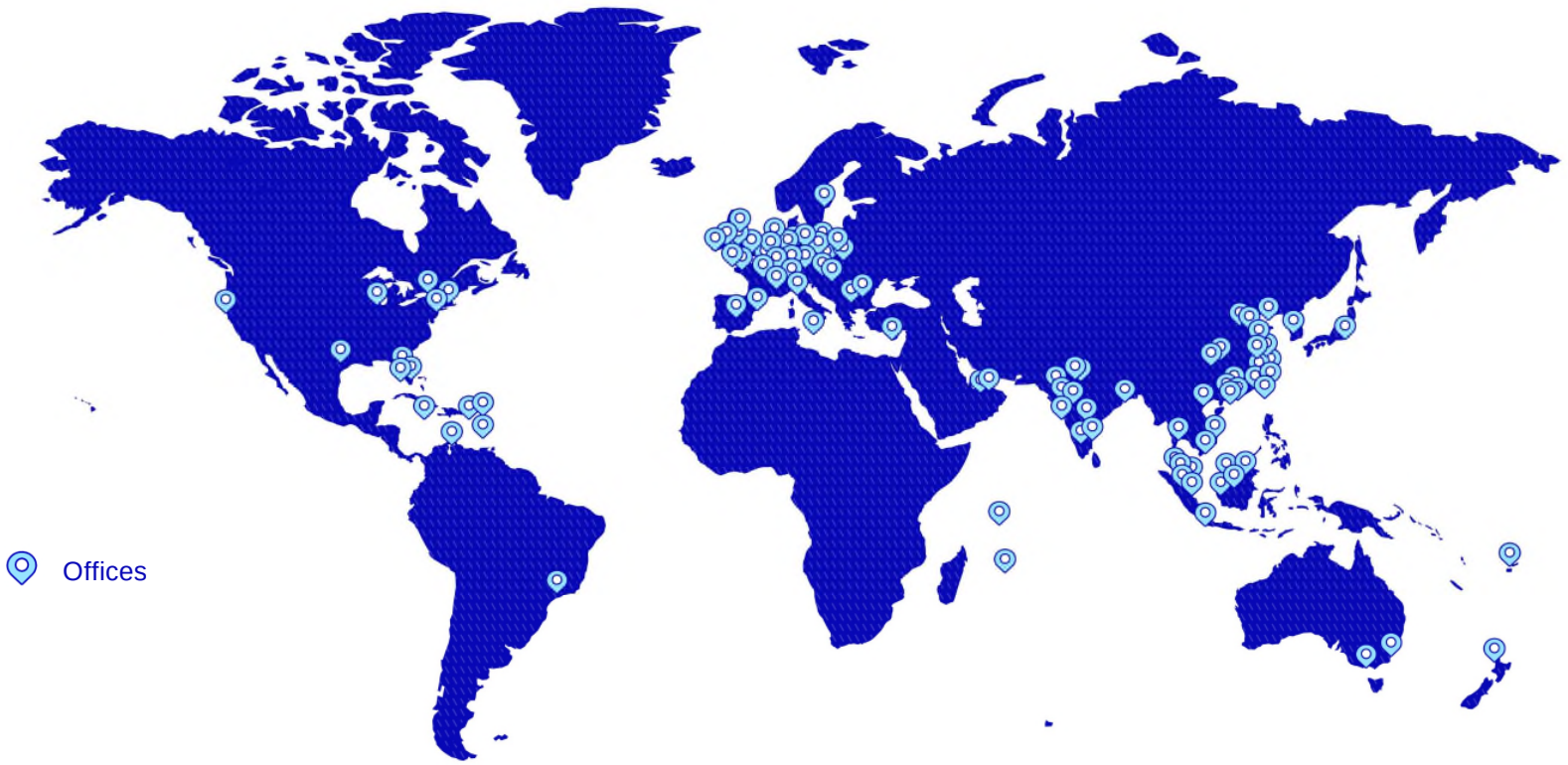
Global reach

Where you can find us



Offices

Network at a glance

9,000
experts

50+
markets

200,000
legal entities managed

Vistra India

8 Cities

900 Employees

1. **Largest Independent Trustees in India**
2. **Unique Combination of Pre- incorporation advisory, Setup, Directorship, Registered Office Address and ongoing Compliances**
3. **Capability to provide legal and fiduciary support to entities**
4. **International Best Practices customized to local requirements**

- Collectively 200+ man years of experience in leadership team
- Direct presence in 8+ cities within India & IFSC,GIFT
- Servicing 300+ entities (almost all of them are foreign subsidiaries)
- Comprehensive Solution Provider
- Adherence to our client's Service level agreements is at 99.5%.

Market Share*

AOA (USD Bn)	AIFs	Private Clients	Capital Market
158.30	44%	27%	15%

*approximate figures as on Mar 2023

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