# Fund Management Regime in IFSC at GIFT City

GUJARAT INTERNATIONAL FINANCE TEC-CITY

International Financial Services Centre

# Content

## International Financial Services Centre ('IFSC')

Globally, Financial Centres are locations with an agglomeration of participants in banking, asset management, insurance and financial markets with venues and supporting services for these activities.

The world has witnessed the transformation of New York, London, Singapore, Hong Kong and Tokyo as Global Financial Centres. Recently, there has been a spurt of newer Financial Centres in Dubai(UAE), Malaysia, South Korea and few other countries.

## IFSC in India at Gujarat International Finance Tech City ('GIFT City')

The Government of India ('GoI') had launched India's first IFSC in Gujarat at GIFT City in April 2015.

With the launch of the IFSC at GIFT City, the GoI had taken the first step to bring financial services transactions which are relatable to India, back to India.

> "My vision is that in ten years from now, GIFT city should become the price setter for at least a few of the largest traded instruments in the world, whether in commodities, currencies, equities, interest rates or any other financial instrument." The concept of IFSC is simple but powerful. It aims to provide on-shore talent with an offshore technological and regulatory framework. This is to enable Indian firms to compete on an equal footing with offshore financial centres."
>
> **Shri Narendra Modi, Hon'ble Prime Minister of India**
>
> http://pib.nic.in/newsite/PrintRelease.aspx?relid=156240

The core objectives for developing an IFSC in India are outlined below -

a. To realise the vision of the Government of India to emerge as a major economic power by facilitating development of strong base of International Financial Services in the country.

b. To position IFSC as a world-class zone for the long-term provision of office/service accommodation and high technological, economical and commercial infrastructure.

c. Facilitate the implementation of the Government's strategy for the development of a financial hub in the South Asian sub-continent.

The latest Global Financial Centres Index, London, (September 2020) places IFSC at GIFT City right at the top amongst 15 Centres globally, which are likely to gain greater significance in next 24 months.

> "There has been a constant call to attract offshore fund managers (who invest in India, but operate from an offshore location), by encouraging them to shift their fund management and administration to India. In this context the Committee has made suggestions for a suitable tax and regulatory framework for the domiciliation of AIFs in International Financial Services Centers in India."
>
> **Shri. N.R. Narayana Murthy, Chairman - Alternative Investment Policy Advisory Committee**
>
> https://www.sebi.gov.in/reports/reports/jan-2018/3rd-report-submitted-by-alternative-investment-policy-advisory-committee-_37460.html

GIFT is being developed on 886 acres of land consisting of a Multi Service Special Economic Zone ('SEZ') with IFSC on 261 acres and a domestic Finance Centre on the remaining.

The world class infrastructure development at GIFT City has won many awards and accolades from reputed forums.

**Business Ecosystem:** Today, GIFT City is operational with 15 Indian banks including 3 foreign banks clocking foreign currency business transactions worth US$ 28 billion, Insurance business worth US$ 30 billion carried out by Insurance and Reinsurance companies of national repute and insurance intermediaries, establishment of Medium-Term Note program by leading Indian issuers of US$ 51 billion and presence of two International Exchanges located in GIFT City operating 22 hours a day.

## Legal framework for units in IFSC

| Regulations | Regulator |
|---|---|
| Special Economic Zones Act, 2005 | Board of Approval headed by the Secretary, Department of Commerce |
| IFSC Authority Act, 2019 | IFSC Authority |
| International Financial Services Centres Authority (Banking) Regulations, Nov2020 for setting up IBUs | IFSC Authority |
| SEBI (International Financial Services Centres) Guidelines, 2015 | Securities and Exchange Board of India |
| • IFSCA (Insurance Intermediary) Regulations, 2021<br>• IFSCA (Registration of Insurance Business) Regulations, 2021 | Insurance Regulatory and Development Authority of India |
| • FEMA (International Financial Services Centre) Regulations, 2015<br>• FEM (Foreign Currency Accounts by a Person Resident In India) Regulations, 2015<br>• FEM (Transfer or issue of Foreign Security) Regulations, 2004 ('ODI Regulations') | Reserve Bank of India |
| Income-tax Act, 1961 | Central Board of Direct Taxes |
| Goods and Services Tax Law | Central Board of Indirect taxes and Customs |

## Participants in IFSC

**Banks**
(regulated by the IFSCA)

- Indian banks (viz. banks authorised to deal in foreign exchange)
- Foreign banks already having presence in India

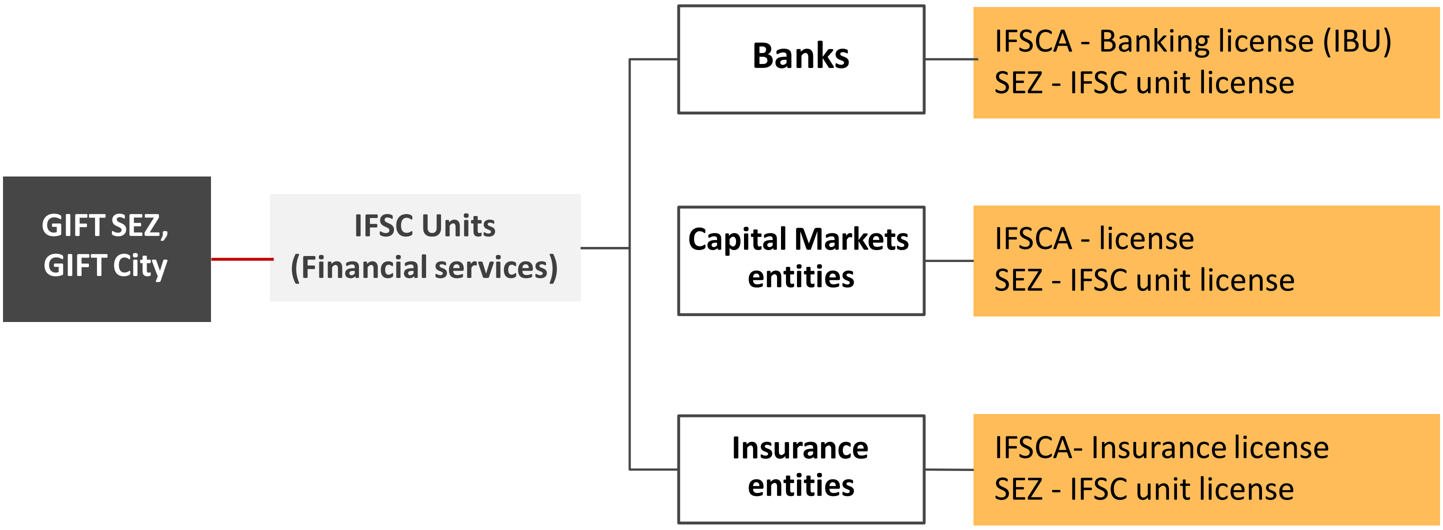
**Insurance players**
(regulated by IFSCA)

- Indian Insurer
- Indian Reinsurer
- Indian Broker
- Foreign Insurer
- Foreign Reinsurer

**Capital Market Players**
(regulated by IFSCA)

- Stock Exchanges / Commodity Exchanges
- Clearing Corporation
- Depository, Custodians
- Broker
- Alternate Investment Fund / Fund Management Entity
- Mutual Fund
- Investment Adviser
- Portfolio Manager

## Overview of IFSC Tax framework




The Regulatory Powers of RBI, SEBI, IRDAI and PFRDA have been vested in IFSCA for regulating financial institutions, financial products, and services in IFSC at GIFT City exercisable by IFSCA from 1st October 2020

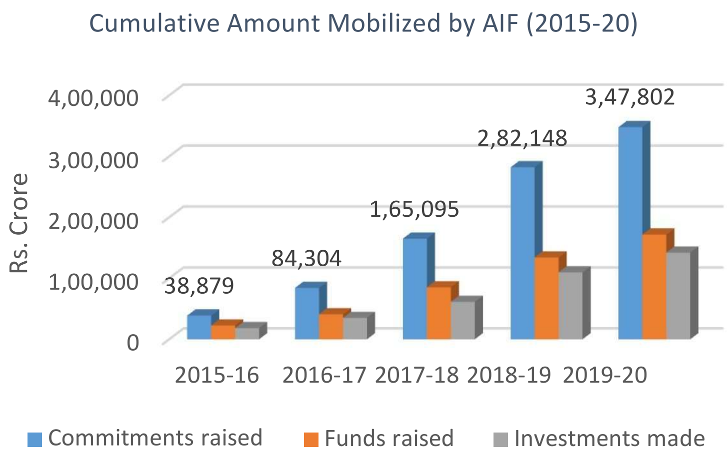
| Particulars | Units in IFSC | Investors |
|---|---|---|
| **Income-tax** | • 100% tax exemption for 10 consecutive years out of 15 years<br>• MAT / AMT @ 9% of book profits applies to Company / others setup as a unit in IFSC. MAT not applicable to companies in IFSC opting for new tax regime<br>• From 01 April 2020, dividend income distributed by Company in IFSC to be taxed in the hands of the shareholder. | • Interest income paid to non-residents<br>☐ Monies lent to IFSC units not taxable<br>☐ Long Term Bonds & Rupee Denominated Bonds listed on IFSC exchanges taxable at lower rate of 4%<br>• Transfer of specified securities listed on IFSC exchanges by a non-resident or Category III AIF located in IFSC not treated as transfer - Gains accruing not chargeable to tax in India<br>• Specified securities include Bond, GDR, Foreign currency denominated bond, Rupee-denominated bond of an Indian company, Derivatives, Unit of a Mutual Fund, Unit of a business trust, Unit of Alternative Investment Fund and Foreign currency denominated equity share of a company |
| **Goods and Services Tax** | • No GST on services –<br>☐ received by unit in IFSC<br>☐ provided to IFSC / SEZ units or Offshore clients<br>• GST applicable on services provided to DTA | • No GST on transactions carried out in IFSC exchanges |
| **Other taxes and duties** | • State Subsidies – Lease rental, Provident Fund contribution, electricity charges | • Exemption from STT, CTT, stamp duty in respect of transactions carried out on IFSC exchanges |

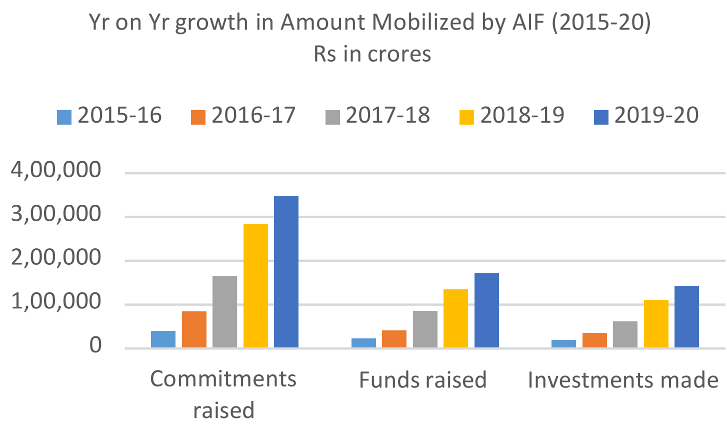
## Alternate Investment Funds (AIFs) in India

In 2012, the SEBI introduced AIF Regulations[1] with an intention to regulate unregistered pooling vehicles. It aimed to avoid regulatory gaps and to have a level playing field for all types of funds in India.

Currently, there are more than 600 AIFs registered with the SEBI. As on 31 December 2019, as per the data published by SEBI, the total capital commitment of these AIFs is US$ 49.69 billion out of which the fund raised from investors is US$ 24.53 billion and the amount of investments made is US$ 20.30 billion. These facts clearly demonstrate the potential of AIFs as a pooling vehicle in India.

Considering the success of the AIF regime in domestic market and a with a view to encourage fund regime in IFSC, in 2015, the SEBI had issued detailed guidelines[2] to facilitate and regulate the securities market in India's first IFSC at GIFT City. These guidelines provided the basic framework for AIFs, such as permissible investors, permissible investments, etc.

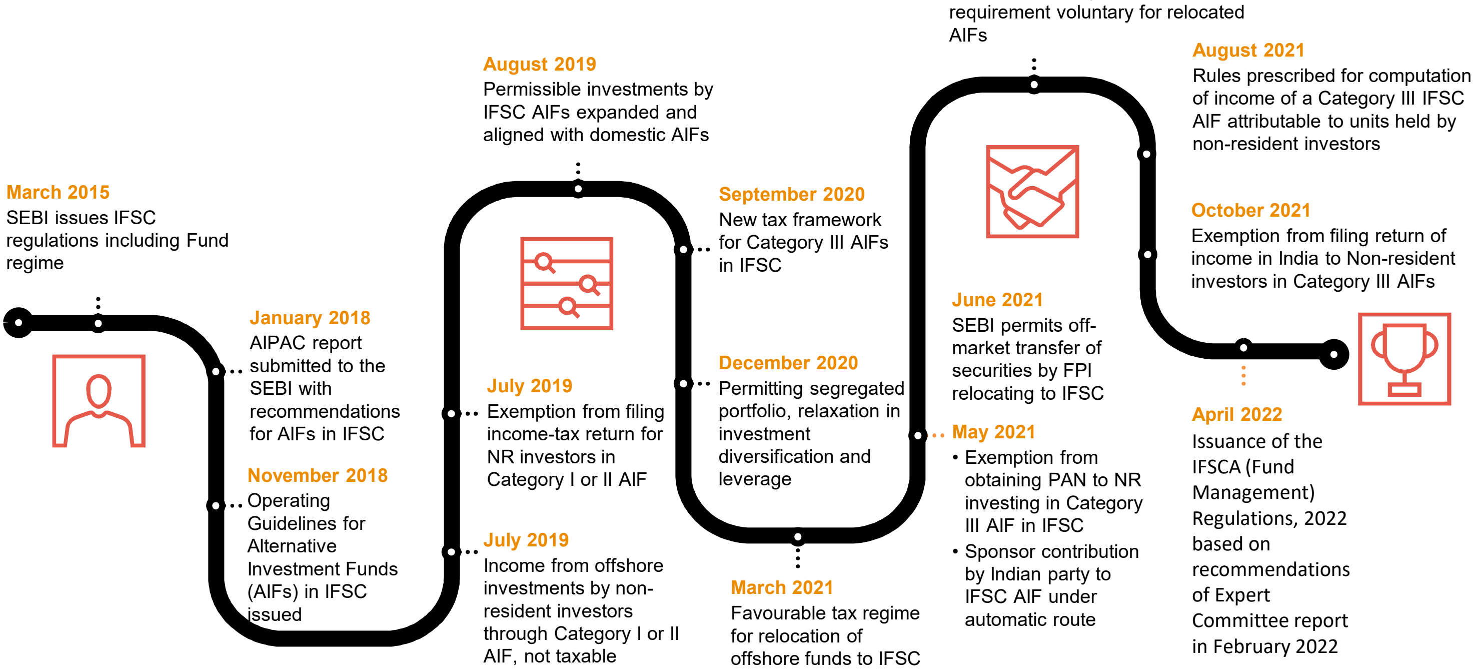



https://www.sebi.gov.in/statistics/1392982252002.html

Based on the suggestions submitted by AIPAC, on 26 November 2018, the SEBI issued circular[3] specifying the 'Operating guidelines for AIFs in IFSC'.

## Journey of Fund regime in IFSC




1. *SEBI (AIF) Regulations, 2012*
2. *Securities and Exchange Board of India(International financial services centres) guidelines, 2015*
3. *Circular No. SEBI/HO/IMD/DF1/CIR/P/143/2018*

## Fund Management Entities (FMEs) in IFSC

The IFSC Authority ('IFSCA'), in its endeavour to develop a comprehensive and consistent regulatory framework for Investment Funds based on global best practices with a special focus on ease of doing business, had constituted an Expert Committee on Investment Funds to recommend to IFSCA on the road map for the funds industry in the IFSCs.

The Expert Committee submitted its report ('Committee Report') to the IFSCA on January 31, 2022. Upon examination of the Committee Report, the IFSCA proposed to issue the IFSCA (Fund Management) Regulations, 2022 and the consultation paper along with the draft regulations were released for public consultation.

In April 2022, the IFSCA has notified the final IFSCA (Fund Management) Regulations, 2022. These Regulations provide a comprehensive regulatory framework for Asset Managers and Funds and could prove to be a seminal moment for the Asset Management industry in IFSC.

### Cornerstone of the new regulations

**Regulating Fund Manager v. Fund**

A paradigm shift in exercise of regulatory oversight through regulation of Fund Managers as compared to regulation of Funds under the earlier regime

**Regulatory Oversight**

Fund Manager to obtain registration from IFSCA and requirement for launching of Funds/ Schemes to be fine-tuned based upon the investor classes

**Risk- based Approach**

Three categories of FME have been notifed:

- With least regulatory oversight
- With moderate regulatory oversight
- With high regulatory oversight

# FMEs in IFSC

## Snapshot and basic construct of the regulations

**IFSCA (Fund Management) Regulations, 2022**

### Fund Management Entity

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

### Fund/ Schemes

- Venture Capital Schemes
- Restricted schemes (non-retail schemes)
- Retail Schemes

### Focus Areas

- Special Situation Funds
- ETFs
- ESG

### Other Fund Management Activities

- Portfolio Management Services
- Investment Trusts
- Family Investment Funds

**The notified Regulations mention that the respective Schemes 'may' be construed as Category I/ II/ III AIF under inter alia the Income-tax Act, 1961**

Existing Fund Managers of AIFs and existing Portfolio Managers to seek fresh registration under the new Regulations
within 6 months

# FMEs in IFSC

## Categories of FME

| | |
|---|---|
| **Authorised FME** | • Pooling of money from accredited investors or investors investing above USD 250,000<br>• Invest in start-up or early-stage ventures through Venture Capital Scheme<br>• Family Investment Funds<br>• Minimum net worth: USD 75,000 |
| **Registered FME (Non-Retail)** | • Pooling of money from accredited investors or investors making capital commitment above USD 150,000<br>• Portfolio Management services, Multi Family Offices, Investment Manager for private placement of REITs and InvITs<br>• Minimum net worth: USD 500,000<br>• Allowed to undertake all activities of Authorised FMEs |
| **Registered FME (Retail)** | • Pooling of money from all investors or including retail investors<br>• Public offer of Investment Trusts (REITs and InvITs), Launch of ETFs<br>• Minimum net worth: USD 1,000,000<br>• Allowed to undertake all activities of Authorised FMEs and Registered FME (Non-retail) |

## Categories of Schemes

| | |
|---|---|
| **Venture Capital Scheme** | • Launched by FMEs – schemes that invest primarily in start-ups, early stage VC undertakings involved in new products, services, technology etc. Also includes an Angel Fund<br>• Offered only on a private placement basis (including accredited investors) and shall have less than 50 investors<br>• 'Green channel' for subscription by investors |
| **Restricted Scheme** | • Offered only to relevant persons on a private placement basis (including accredited investors) and shall have less than 1,000 investors<br>• 'Green channel' if subscription is to be raised only from accredited investors<br>• Launched by Registered FME |
| **Retail Scheme** | • Schemes offered to all investors including retail investors<br>• Schemes can be:<br>- filed with regulator only after approval from fiduciaries;<br>- launched only after incorporating all comments from regulator in the offer document<br>• Launched by Registered FME (Retail) |

## FMEs in IFSC

### Key attributes of FME

| Particulars | Categories of FME | | |
|---|---|---|---|
| | **Authorised FME** | **Registered FME (Non-Retail)** | **Registered FME (Retail)** |
| **Types of schemes managed** | • Venture Capital Schemes offered on a 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 |
| **Minimum no. of employees (based out of IFSC)** | 1<br>(1 Principal Officer for overall activities) | 2<br>(1 Principal Officer for overall activities + 1 Compliance and Risk Manager) | 3<br>(1 Principal Officer for overall activities + 1 Compliance and Risk Manager + 1 Additional Key Managerial Personnel for fund management) |
| **FME Experience** | • FME to employ such employees who shall have relevant experience | | • FME/ holding company to have > 5 years of experience in managing AUM of at least USD 200mn with more than 25,000 investors; or<br>• At least 1 person in control holding more than 25% shareholding in the FME to have at least 5 years of experience in financial services<br>• FME to employ such employees who shall have relevant experience |
| **Experience and professional qualification of Key Managerial Personnel** | • **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 recognised university/ institution or a certification from any organization/ institution/ association/ stock exchange which is recognised/ accredited by Authority or a regulator in India or Foreign Jurisdiction<br>• **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 | | |
| **Minimum number of Directors / Partners in the FME** | - | - | 4 (At least 50% to be independent and not associated with FME) |

## FMEs in IFSC

### FME Contribution: Skin-in-the-game

| Targeted Corpus (TC) | Minimum / Maximum | Types of Schemes | | |
|---|---|---|---|---|
| | | Venture Capital Scheme/ Close ended Non-retail scheme | Open ended Non-retail scheme | Retail schemes |
| Less than USD 30 million | Minimum | 2.5% of TC | 5% of TC | Lower of: (a) 1% of AUM of the scheme or (b) USD 200,000 |
| | Maximum | 10% of TC | 10% of TC | - |
| More than USD 30 million | Minimum | USD 750,000 | USD 1,500,000 | Same as above |
| | Maximum | 10% of TC | 10% of TC | - |

- Contribution requirements to be fulfilled by FME or its associates within 45 days, unless exempted and to be maintained on ongoing basis
- The contribution requirements by the FME is not mandatory in following cases:
  - In case of VC schemes and Restricted schemes (Non-retail):
    - At least 2/3rd of the investors in the scheme by value permit waiver of such contribution;
    - At least 2/3rd of the investors in the scheme are accredited investors; or
    - FOF scheme investing in a scheme which has similar such requirements (applicable in case of Retail schemes)
  - In case of relocation of funds/ schemes established or incorporated or registered outside India to IFSC

## FMEs in IFSC

### Key attributes of Schemes

| Particulars | Categories of Schemes | | |
|---|---|---|---|
| | **Venture Capital Scheme** | **Restricted Scheme** | **Retail Scheme** |
| **Legal Structure** | Company, LLP or Trust | | Company/ Trust |
| **Type of Fund/ Scheme** | Close-ended | Open-ended or Close-ended | |
| **Corpus** | Minimum – USD 5 million<br>Maximum – USD 200 million | Minimum – USD 5 million<br>Maximum – No limit | |
| **Minimum number of investors in the scheme** | - | - | |
| **Maximum number of investors in the scheme** | < 50 | < 1000 or such higher limit as may be prescribed by the IFSCA | No restrictions |
| **Minimum contribution or capital commitment from an investor in the scheme** | Accredited investors – None<br>Other than Accredited investors:<br>• USD 250,000<br>• Employees/ Directors/ Designated Partners/ Partners of FME – USD 60,000 | Accredited investors – None<br>Other than Accredited investors –<br>• USD 150,000<br>• Employees/ Directors/ Designated Partners/ Partners of the FME – USD 40,000 | Open-ended schemes – None<br>Close-ended schemes - Minimum investment to be USD 10,000<br>No restriction to close-ended schemes investing less than 15% in unlisted securities |
| **Maximum holding by a single investor in the Fund or Scheme** | None | None | 25% |
| **Asset classes** | Primarily in unlisted securities of start-ups, specified VCUs | • Several asset classes including listed securities, unlisted securities, derivatives, etc<br>• Close ended schemes – Up to 20% of corpus may be invested in physical assets such as real estate, bullion, art or any other physical asset as specified | Several asset classes including listed securities, unlisted securities, derivatives, etc |

## FMEs in IFSC

### Key attributes of Schemes (…continued)

<table>
<tr><th rowspan="2">Particulars</th><th colspan="3">Categories of Schemes</th></tr>
<tr><th>Venture Capital Scheme</th><th>Restricted Scheme</th><th>Retail Scheme</th></tr>
<tr><td>Investment restrictions</td><td>• Atleast 80% of AUM to be invested in companies incorporated for < 10 years or other venture capital schemes<br>• Investment in its associate subject to prior approval of 75% investors in the scheme by value</td><td>• Investment in associate entities subject to prior approval of 75% investors in the scheme by value</td><td>• 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)<br>• Cap on investment in a single sector – 25% of AUM (50% for financial service sector) (not applicable in case of sectoral / thematic / Index schemes)<br>• Cap on investment in its associate – 25% of AUM</td></tr>
<tr><td>Cap on investment in unlisted securities</td><td>None</td><td>• Open ended scheme – 25% of the corpus of the scheme<br>• Close ended scheme – No such restriction</td><td>• Open-ended: 15% of the AUM of the scheme<br>• Close-ended – 50% of the AUM of the scheme</td></tr>
<tr><td>Leverage</td><td colspan="2">Permissible subject to disclosure of maximum leverage and methodology for calculation of leverage in the placement memorandum<br>• deviations subject to approval of $2/3^{rd}$ investors by value</td><td>Permissible only for meeting temporary liquidity requirement (for meeting redemptions or dividend payments) up to 20% of the AUM of the scheme and the duration of such borrowing to not exceed 6 months</td></tr>
<tr><td>NAV disclosure</td><td>• Yearly</td><td>• Open-ended scheme – Monthly<br>• Close-ended scheme – Half-yearly</td><td>• Open-ended scheme – Daily<br>• Close-ended scheme – Weekly</td></tr>
</table>

# FMEs in IFSC

## Special Situation Funds

| | |
|---|---|
| **Permitted to invest in:** | • stressed loan available for acquisition<br>• security receipts (SRs) issued by an Asset Reconstruction Company (ARC) registered with the RBI<br>• securities of investee companies whose<br>- stressed loans are available for acquisition,<br>- against whose borrowings, SRs are issued by an ARC,<br>- whose borrowings are subject to corporate insolvency resolution process, etc. |

| | |
|---|---|
| **Category of FME to launch a Special Situation Fund** | Registered FME |
| **Type of Fund** | Close - ended fund |
| **Legal structure of the Fund** | Company or LLP or Trust |
| **Permissible Investments** | Only in special situation assets |
| **Leverage** | Not permissible other than to meet day-to-day operational requirements |
| **Scheme corpus, eligible investors, investment conditions** | As may be specified by IFSCA from time to time |
| **Computation of NAV, contribution by FME in the Fund/ scheme and other disclosure/ valuation norms** | To apply as applicable to close - ended Restricted schemes |

# FMEs in IFSC

## Exchange Traded Funds

- Registered FMEs (Retail) permitted to launch ETFs in IFSC
- Units of ETFs to be mandatorily listed on at least one of the recognised stock exchange in IFSC
- Simplified framework may be prescribed by recognised stock exchange(s) for intermediaries to act as market makers

**Important Aspects**

- **NAV:** Daily basis
- **Redemption**: Option available to investors
- **Material deviation:** consent of at least 2/3rd of investors by value

**Types of ETFs**

| | |
|---|---|
| Equity/ Debt Index | Replicates index of IFSC/ Indian/ foreign jurisdiction ≥ 95% (equity)/ 90% (debt) of total assets |
| Gold/ Silver Index | Investment in gold/ silver, bullion, ETCD (with underlying as gold) ≥ 90% of AUM |
| Commodity Index | Invest ≥ 90% in specified commodity or related security/ investment |
| Active Managed | FME has discretion over composition of portfolio subject to investment policies |
| Other | Subject to approval of Exchange |

## Environmental, Social and Governance (ESG)

**FME managing AUM > USD 3 billion**

- Establish policy on governance around material sustainability-related risks and opportunities
- Disclosure in annual report:
  - How the FME identifies, assesses and manages material sustainability-related risks;
  - Process of factoring sustainability-related risks and opportunities into investment strategies

**ESG Fund**

- FME launching ESG scheme to make disclosure in the prescribed manner regarding:
  - investment objective,
  - investment policy and strategy
  - material risk, benchmark, etc.
- Scheme documents shall disclose whether sustainability-related risks are incorporated in decision making
  - Negative statement to be included when sustainability-related risks are not incorporated

## FMEs in IFSC

### Portfolio Management Services (PMS)

| | |
|---|---|
| Eligible FME and clients | • Person resident outside India/ NRI<br>• Individual/ non-individual resident in India, eligible to invest offshore as per prescribed regulations and<br>• Multi-family office<br>• Minimum ticket size: USD 150,000<br>- minimum investment threshold shall not apply to an accredited investor |
| Permitted Investments | • Securities/ financial products in IFSC, India or foreign jurisdiction<br>• Discretionary PMS: listed/ to-be listed securities, money market instruments, units of investment scheme |
| Investment Restrictions | • Investment in derivatives, with express consent<br>• Segregation of client's funds/ portfolios from FME's funds/ portfolios |
| Others | • Dealing with client's funds<br>- aligned with the existing Capital Market Intermediaries Regulations (CMI)<br>• Provide advisory services subject to compliance with CMI |

### Family Investment Fund

#### Eligibility conditions

- Set-up in form of a Company, LLP or Contributory Trust
- For Contributory Trusts:
  - the beneficiaries should be identifiable, though not specifically named in Trust deed
  - the share of each beneficiary should be capable of being determined
  - addition of further contributors shall not make existing beneficiaries unknown or their shares
- Minimum corpus - USD 10 million within 3 years
- Borrowing/ leveraging permissible

#### Permissible Activities and Instruments

- Permissible activities
  - Activities related to managing Family Office as specified by IFSCA
- Permissible investments:
  - Securities issued by unlisted entities;
  - Securities listed/ to-be listed on stock exchanges (and other investment schemes), in IFSC, India or foreign jurisdictions;
  - Money market instruments/ debt or derivatives;
  - Asset-backed or mortgage-backed securitised debt instruments;
  - Units of mutual funds and alternative investment funds in India and foreign jurisdiction;
  - Investment in Limited Liability Partnerships;
  - Physical assets like real estate, bullion, art, etc., or
  - Any other securities or financial productas may be specified

## Tax Framework

**Under the new Fund Management Regulations:**

**Venture Capital Scheme shall be construed as Category I AIF under Income tax Act, 1961 and Restricted Scheme (Non-Retail) shall be construed either as Category I/ II / III AIF (as the case may be)**

### A. For AIFs and its investors

#### *a. Category I and II AIF*

- Category I and Category II AIF have tax pass-through status for Indian income-tax purposes (except for business income, which is taxable in the hands of the AIF for which 100% tax holiday can be claimed for a period of 10 consecutive years out of a block of first 15 years).
- Investors are taxed on income arising from investments made by the AIF as if the investments were made directly by them.
- Income accruing or arising or received by non-resident investors from offshore investments through a Category I and II AIF is not taxable in India.
- Investors can claim losses (other than business loss) of AIF on pass through basis, provided the units of such AIF are held for a period of 12 months or more. However, any business loss can be carried forward only at the AIF level.
- Exemption has been provided to non-resident investors from filing return of income, provided they earn income only from investments made in a Category I or Category II AIFs in IFSC and tax has been deducted on the distribution made by such AIFs to non-resident investors. Further, such non-resident investors are also exempted from obtaining PAN in India.
- To the extent beneficial, the investors can avail the tax treatment in accordance with the Tax-treaty, subject to satisfaction of Tax-treaty eligibility conditions.

#### *b. Category III AIF*

- Category III AIFs are subject to fund level taxation.
- The following income earned by the Category III AIF, which are attributable to non-resident investors in the AIF, is exempt from tax:
    - Income on transfer of any securities (other than shares in a company resident in India), including derivatives, debt securities and offshore securities.
    - Income from securities issued by a non-resident (not being a Permanent Establishment) and where such income otherwise does not accrue or arise in India
    - Income from a securitisation trust chargeable under the head “profits and gains of business or profession
    - Income on transfer of specified securities listed on a recognised stock exchange located in IFSC where consideration for such transaction is in convertible foreign exchange
- Income on transfer of shares in an Indian company is taxable as follows to the Category III AIF:
    - Short-term Capital Gains - 15% if Securities Transaction Tax paid, else 30%;
    - Long-term Capital Gains - 10%
- Income in respect of securities (such as interest, dividend) is taxable to the Category III AIF at the rate of 10% (5% in case of interest income on certain rupee denominated bonds, Government securities or municipal debt securities referred to in section 194LD).
- Any income accruing or arising to or received from the Category III AIF or on transfer of its units is exempt from tax in the hands of investors.

## Tax Framework (… continued)

- Surcharge on certain Long-term Capital Gains, Short-term Capital Gains and dividends earned by the Category III AIF is capped at 15%. Further, the provisions of Alternate Minimum Tax are not applicable to the Category III AIF.

- Exemption has been provided to non-resident investors of Category III AIF in IFSC from obtaining a PAN and filing income-tax return in India

- Exemption from stamp duty, Securities Transaction Tax & Commodities Transaction Tax for transactions carried out on IFSC exchanges.

**B. For Manager:**

- 100% corporate tax exemption for 10 consecutive years out of block of 15 years (from date of approval from regulator) in respect of income from business carried on in IFSC.

- The Minimum Alternate Tax ('MAT')/ Alternate Minimum Tax ('AMT') rate has been reduced to 9% (as against 18.5%). However, companies in IFSC choosing to opt for new tax regime under domestic tax law shall be exempt from MAT provisions.

- The dividend distributed by Manager may be taxable in the hands of its shareholders under the domestic tax law.

- Supply of services by Manager to AIFs in IFSC is exempt from Goods and Services Tax. The same shall be applicable to services by FME to Scheme in IFSC.

- Interest payable to a non-resident in respect of monies borrowed exempt from income tax.

## Attribution mechanism

The CBDT has notified rules prescribing the method of computation of income of the Category III AIF in IFSC attributable to units held by non-resident investors.

The key aspects of the attribution mechanism is as follows:

- The attribution mechanism is based on the Assets Under Management (AUM) of the AIF.

- Income arising from transfer of security is attributable on the basis of the average of daily aggregate AUM of the AIF over the period of holding of the security. Income received in respect of securities is attributable on the basis of the AUM as on the date of receipt of income.

- The term 'AUM' has been defined as the closing balance of the value of assets or investments of the AIF as on a particular date.

## Tax Framework (… continued)

## Relocation of Offshore funds to the IFSC:

### A. Tax neutrality provided for relocation of Offshore funds to IFSC:

The Finance Act, 2021 introduced provisions to provide for tax neutrality in case of relocation of offshore fund or wholly owned Special Purpose Vehicles of the Offshore fund to the resultant fund (Category I/ II / III) in the IFSC, where the transfer of assets have been taken place on or before March 31, 2023 as follows:

- Exemption from capital gains from any transfer, in relocation, of a capital asset of the original fund or its wholly owned Special Purpose Vehicles of the original fund to the resultant fund in the IFSC.
- Exemption from capital gains from transfer by a shareholder / unit holder, in a relocation, of capital asset being share / unit held by him in the original fund; or the original fund itself, in consideration for share / unit in the resultant fund.
- Exemption from capital gains tax arising or received by a non-resident investor or a Category III AIF in IFSC, on account of transfer of shares of an Indian company by the resultant fund or the Category III AIF to the extent attributable to the units held by non-resident and such shares were transferred from the original fund, or from its wholly owned special purpose vehicle, to the resultant fund pursuant to relocation and where the capital gains on such transfer would originally not been subject to tax had the relocation not taken place.
- Cost of acquisition to previous owner shall be available to the resultant fund.
- No impact on carry forward of losses with change in the shareholding of Indian company to the extent the change in shareholding has taken place on account of relocation.

### B. Regulatory Relaxations

- One time “Off-market transfer” of securities permitted by SEBI for offshore funds relocating to IFSC
- Continuing interest requirement for Manager / sponsor has been made voluntary for Resultant Fund

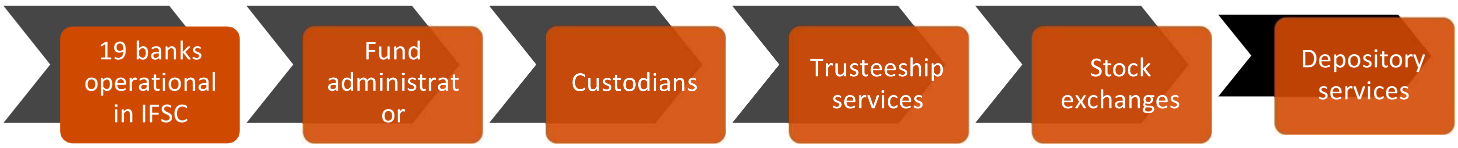
## Key steps for setting up GIFT - FME and Scheme

1. Apply for availability of name for FME (not applicable to a Branch) and Scheme (if applicable)
2. Identification of office space in GIFT Special Economic Zone (SEZ) and secure Provisional letter of allotment (PLOA) from GIFT SEZ
3. Apply for Branch set-up/ Company/LLP incorporation for FME and Scheme (if applicable) and obtain Certificate of Incorporation
4. Appointment of a trustee for Scheme and registration of trust deed, wherever applicable
5. Application to the Development Commissioner of SEZ and obtain letter of approval (LOA) from SEZ Authorities for FME and Scheme (if applicable)
6. Obtain IFSC Authority approval
7. Commencement of Business

## Key benefits for FMEs in IFSC

- Various tax incentives and regulatory exemptions granted to IFSC Units
- Lower operating costs, in addition to other subsidies granted by the Gujarat Government
- Availability of skilled resources
- Proximity to the onshore market
- World class infrastructure, unparalleled connectivity and transportation access
- Access to multiple markets from IFSC and opportunity to become a part of growing ecosystem supported by robust policy initiatives by Government of India.

## Financial Ecosystem for FMEs in IFSC



## Gujarat Government State subsidies

**Newly introduced State Subsidies Incentives available under IT/ITeS policy of Gov. of Gujarat**

| | |
|---|---|
| Capital Subsidy | Capital subsidy @ 25% of capital expenditure (one-time)<br>• Upto INR 2000m where gross fixed capital investment by entity exceeds INR 2500m<br>• Upto INR 500m where capital investment is less than INR 2500 m |
| Subsidy for operating expense | Opex Subsidy @ 15% of operating expenditure (for 5 years)<br>• Upto INR 400m where gross fixed capital investment by entity exceeds INR 2500m<br>• Upto INR 200m where gross fixed capital investment is less than INR 2500m |
| Electricity duty reimbursement | 100% Reimbursement of Electricity duty for 5 years |
| Reimbursement of Provident Fund contribution by employer | 100% of EPF amount contribution (upto 12%)<br>• 100% for female employees<br>• 75% for male employees |
| Interest subsidy | Interest subsidy (for 5 years) of upto 7% on term loan or actual interest paid, max INR 10 mn per annum |
| Employment generation incentive | Reimbursement of 50% of one month employment cost to company (one-time) upto a maximum of<br><br>INR 50k for men<br>INR 60k for women |

**Special Incentives for IT City / Township, Cloud Ecosystem, Data Centres and R&D institutes**

| | |
|---|---|
| IT City / Townships | Capex: One time support of 25% of CAPEX subject to maximum of INR 500m |
| Facilitating infrastructure | Opex (Rentals): First two years: 50% of monthly rentals subject to a maximum of INR 10k<br>First three years subsequently: 25% of monthly rentals subject to a maximum of INR 5k |
| Cloud System for CLS | Capex: One-time support of 25% of eligible CAPEX up to INR 200m |
| Data centre projects | Capex: One-time support of 25% of eligible CAPEX up to INR 1.5bn<br>Opex: Power tariff subsidy of INR 1/ unit (5 years) |
| Establishing R&D institutes | One-time support of 60% of machinery cost up to INR 50m |

# Thank you

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